# Kraftco Corporation

# Annual Report 1975

HUMKO
OIL
KRAFT
Ice Cream
Parlor Taste

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## Annual Meeting

The Annual Meeting of Stockholders of Kraftco Corporation will be held Thursday, April 15, 1976, at 2 p.m. at The Copley Plaza Hotel, Copley Square, Boston, Massachusetts.

## SEC Form 10-K

Kraftco's Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is available upon request and may be obtained by writing to the Secretary of the Corporation:

Joseph L. Caliri
Kraftco Corporation
Kraftco Court
Glenview, Illinois 60025

## Kraftco and Food Production

(See Cover Design)

Kraftco Corporation is one of the world's largest manufacturers of packaged foods. The company's other major product lines are refined vegetable oils, chemicals and packaging materials. Kraftco products are sold in more than 130 countries.

The cover design of this report suggests Kraftco's activity at each stage of the modern food production cycle. Raw food materials are graded and purchased at the peak of their quality. Processing and packaging preserve freshness, good taste and maximum nutrition. Finished products are distributed to retailers, foodservice users and other customers and are supported by advertising, marketing and consumer education programs. Finally, the moment of truth arrives in scenes like the ones shown in the photograph on the far right.

### Board of Directors (page 30)

Our 15-member Board of Directors includes four current Kraftco executives, a former chief executive officer of the company and 10 senior officers of other major organizations. As noted, the Board of Directors is elected by the stockholders and is directly responsible to them for the effective management of the company. Its primary functions include: electing the officers of the company; setting broad company policy; declaring dividends; reviewing and monitoring the results of operations monthly; reviewing for approval or disapproval all significant contracts, real estate transactions and appropriations for capital expenditures. The Board also selects an independent auditor and makes sure of the adequacy of internal controls.

Several committees composed entirely of Board members consider and make recommendations to the Board concerning financing decisions, employee benefits programs, auditing standards and procedures, and salary and stock option matters. The Audit, Employee Benefits, and Salary and Stock Option Committees are composed entirely of outside directors. The Board measures management's performance against the highest ethical, social and financial standards. Outside directors are paid meeting fees and annual retainers, but Board members who are employees of Kraftco are not paid any such fees or retainers.

### Officers and Committees (page 32)

The names of corporate officers elected by the Board of Directors are listed, along with a notation which describes the primary responsibility of each.

### Counsel and Auditors (inside back cover)

The names of Kraftco's outside legal counsel and independent auditing firm are shown on this page for easy reference.

### Transfer Agents (inside back cover)

Every day investors buy and sell shares of Kraftco stock which are represented by stock certificates. When shares of Kraftco stock are sold, the seller's certificate must be collected and cancelled and a new one issued to the buyer. The five banks listed keep track of such changes in ownership and perform other activities related to handling of stock certificates. The principal transfer agent, Manufacturers Hanover Trust Company, maintains the complete record of stock ownership and also acts as the company's dividend disbursing agent.

### Registrars (inside back cover)

The registrar makes sure that the number of shares on the buyer's stock certificates equals the number of shares shown on the seller's cancelled certificates. This action assures the company that the total number of shares outstanding at any time does not exceed the authorized number of shares. Five banks serve us as registrars, verifying the work of our transfer agents.

### Stock Exchanges (inside back cover)

Kraftco stock is traded on the New York Stock Exchange and twenty other exchanges. This broad representation in the U.S., Europe, Australia and Canada makes it possible for investors around the world to buy and sell Kraftco stock conveniently.

amount was subtracted from income to represent a decrease in the value of assets due to wear and tear. However, the money actually was spent in previous years when the assets were purchased. So, the depreciation figure can be added to sources of funds. Taxes which will be deferred for more than one year in advance provided $5.7 million in 1975. The company also can raise funds by selling assets such as property or plants or by borrowing from investors who buy our bonds. In 1975, all sources provided $202 million of working capital.

**Working Capital Used For:** Kraftco used funds in 1975 to pay $53 million in **Dividends** to stockholders and $117 million for **Property, plant and equipment additions.** Some of this amount was used to replace old assets and the remainder for expansion. Funds also were employed to reduce long-term debt. These uses totaled $190 million.

**Increases (Decreases) in Working Capital:** Total sources of funds minus total uses equalled $11.7 million, the growth in working capital during 1975. Working capital primarily equals accounts receivable and inventories minus current payables. These funds were used to increase current assets and decrease current liabilities, as the last portion of the statement indicates. Figures in parentheses represent increases in liabilities.

## Notes to Consolidated Financial Statements (page 23)

The Notes provide supporting data to help readers gain a proper understanding of the financial statements.

## Auditors' Report (page 25)

Each year an independent accounting firm is appointed by the Board of Directors, with the stockholders' approval, to examine the Consolidated Financial Statements just described. The firm makes its examination in accordance with generally accepted auditing standards established by the accounting profession. The auditors visit a number of locations where they test local records and physically inspect inventories. The auditors' signed opinion is submitted to the stockholders in the form of a letter which must appear in the annual report. It represents to the reader that, in the opinion of competent outsiders, the financial statements are fairly and consistently presented in accordance with generally accepted accounting principles.

## International Subsidiaries (other than Canadian) (page 26)

**The Condensed Statement of Income** and **Condensed Statement of Financial Position** give information covering operations outside the U.S. and Canada similar to that provided for Kraftco's worldwide operations. This information is included in the Consolidated Financial Statements which combine all operations.

## Five Year Summary (page 27)

This summary presents a five-year comparison of financial information. It includes **Summary of Operations** (sales, costs, income, dividends, etc.), **Financial Position** (cash, inventories, assets, liabilities, etc.) and **Statistical Information** (capital expenditures, depreciation, taxes, average number of employees, etc.). This summary is helpful in showing trends that may be developing or how items changed in relation to each other.

## Divisions and Operations (page 28)

As one of the world's leading food processors, Kraftco markets many diverse product lines. This section describes the major food and other product lines of the divisions, with brief marketing and distribution information.

## Consolidated Statement of Income (page 21)

This statement shows money the company received from sales, amounts spent to produce goods and services, and taxes due on earnings. The remainder, of course, is profit or earnings.

**Net sales** consist of the dollar amount of all goods and services purchased from Kraftco.

**Costs and expenses** represent the total amount necessary to produce, sell and finance Kraftco's operations. **Cost of products** is the total expense incurred to produce those goods and services (raw materials, labor, energy, etc.)

**Delivery, sales and administrative expense** includes costs covering distribution, warehousing, point-of-sale promotions and general management needed to sell the goods and run the company. Kraftco's advertising expenses, sales force salaries, and the costs of maintaining the corporate computer center and research and development laboratories are examples of items in this category.

**Interest expense** covers the cost of all the money Kraftco borrowed. It includes interest on bank loans and bonds.

**Other (income) and charges** includes the net total of other miscellaneous income or expense items such as foreign currency revaluations and royalties.

**Income before taxes** identifies the earnings on which Kraftco's income tax obligations are due. **Provision for taxes on income** represents the amount of taxes chargeable against 1975 income. Some of this amount was paid during the year.

**Net income** is "the bottom line," the profit Kraftco earned after all expenses and taxes.

**Earnings per common share assuming full conversion of the 7½% convertible bearer bonds due 1985** states income as if certain of Kraftco's bonds were converted into common stock on the date of the statement. Actually these convertible bearer bonds can be exchanged for common stock at specific times according to a set formula.

## Consolidated Statement of Retained Earnings (page 21)

This report shows what portion of our earnings were retained by the company for reinvestment after dividends were paid to the stockholders. The statement demonstrates growth in the retained earnings section of stockholders' equity. First, the **Balance at beginning of year** is shown. Next, **Net income** is added. Then, **Dividends on common stock** are subtracted, leaving a **Balance at end of year** for 1975 retained earnings.

## Consolidated Statement of Changes in Financial Position (page 22)

This statement illustrates how Kraftco generated and used funds during the past two years.

Working capital is the difference between a company's current assets and current liabilities. As noted, current assets represent items that will be converted into cash within a year. Current liabilities, in turn, identify amounts due from Kraftco within a year. Sound business practice says that current assets should be somewhat larger than current liabilities. This excess shows that Kraftco can meet the obligations of current liabilities without difficulty.

Elements in **the Consolidated Statement of Changes in Financial Position** are as follows:

**Working Capital Provided By:** The basic source of funds, of course, is the $139 million **Net income** provided by operations. **Depreciation** of $52 million is added because it represents a "non-cash" expense. This

**Miscellaneous investments and receivables** include Kraftco's 50 percent interest in a cheese firm in Japan and mortgages receivable resulting from sales of property. **Prepaid and deferred items** refer to such things as insurance, which has been paid for in advance. **Intangibles,** sometimes referred to as "good will," represent the difference between the price paid for a business acquired by Kraftco and the book value of that business.

**Total current liabilities** include amounts owed by Kraftco to suppliers, employees and governments, which will be paid within one year. **Accounts payable and accrued liabilities** indicate the value of goods and services received by the company, but not yet paid for. **Short-term borrowings** cover amounts due to be paid within one year.

**Federal and foreign taxes on income** represent amounts due to governments of the countries in which the company and its subsidiaries operate. Kraftco pays taxes on its earnings as the year progresses, just as most individuals pay income taxes through withholding deductions or quarterly payments. The amount reported in this category represents the balance due at the end of Kraftco's operating year. **Current portion of long-term debt** includes borrowed funds that will be paid within one year. Almost every corporation periodically follows the practice of borrowing money for expansion or other profit-generating uses.

**Long-term debt** totals all the money Kraftco still owes on borrowings for working capital, modernization of plants and equipment and creation of jobs. Such long-term debt is paid back in yearly installments, similar to the monthly payments on a home mortgage. This amount covers all the money which Kraftco does not have to pay back within one year.

**Deferred taxes on income** acknowledges a government investment incentive which allows companies to delay income tax payments through accelerated depreciation allowances. By taking larger than average depreciation expenses over a given period of time, a company can reduce current tax payments and retain more cash to invest in the business. This tax deferral encourages manufacturers to keep their plants and equipment modern and efficient and to provide more jobs. This account represents the tax obligation Kraftco will pay more than 12 months in the future when certain accelerated depreciation allowances are completed.

**Minority interest in subsidiary** indicates that Kraftco is not the only stockholder in Dominion Dairies of Canada. Kraftco owns 84 percent of the business. The 16 percent owned by the other stockholders is valued at the amount listed.

**Miscellaneous** includes all other obligations of the company not due within one year, such as certain international employee pension commitments.

**Stockholders' equity** states the total value of the owners' investment in the company. **Common stock** and **Capital surplus** represent all the money the company received from the first purchasers of the common stock when it was issued. Kraftco receives money for each newly issued share of stock only once. Subsequently, the original owner may sell that share to another investor for the current market price. The share may be resold many times. However, none of the proceeds of such subsequent transactions will go to the company.

**Retained earnings** represent all the earnings that were not paid out as dividends but instead were put to use within the company to finance modernization and growth. Stockholders' equity increases each year by the amount of retained earnings.

**Treasury stock** includes Kraftco common stock that the company bought on the market for various corporate purposes.

### Focus on Issues 1975 (page 4)

This section discusses, through the events of 1975, Kraftco's role as a food processor in the long, complex series of steps needed to bring food from the farm to the tables of the world. Focus on Issues describes the important functional operations of the company: raw material procurement, manufacturing and packaging, marketing and distribution, communications, community involvement and research and development.

### Financial Review (page 16)

This section interprets the sales and earnings figures which appear on the income and retained earnings statements. Financial Review shows changes in sales of major product categories and changes in total sales during recent years. The paragraphs on earnings describe the various factors that make up the company's total profit, including foreign currency valuation changes, taxes and price changes of raw materials. The sales, earnings and financial condition of Kraftco International are shown as well.

Financial Review lists the quarterly sales, earnings and dividends declared during the past two years and the price range of Kraftco's stock. Under Product and Operating Costs, the relative changes in these expense items are discussed. Next, our borrowing costs are described, followed by a detailed analysis explaining how foreign currency valuation changes affected our profits.

Financial Review breaks out information on 1975 capital expenditures with estimates for 1976. Finally, important legal matters are reported.

### Financial Statements (pages 20-22)

The four major financial statements give a detailed picture of the company's condition at the end of 1975 compared to 1974. They also outline the results of all our production and sales efforts. These consolidated statements include the operations of all our divisions and subsidiaries. The Notes to Consolidated Financial Statements provide important background information needed to fully interpret the statements.

### Consolidated Balance Sheet (page 20)

This statement may be thought of as a "financial snapshot" of the company, taken on the last day of the 1975 fiscal year, December 27. It shows all the productive tools Kraftco owns (assets), all the money borrowed by or due from the company (liabilities) and the value of the owners' interest in the company (stockholders' equity). The difference between what a company has and what it owes is the value of the stockholders' investment. Stated another way, assets = liabilities + stockholders' equity.

To further explain what the Balance Sheet discloses:

**Total current assets** are items which can readily be converted into cash through normal operations during the next year. **Cash and temporary investments** are included. **Notes and accounts receivable** include all the money customers owe Kraftco for goods purchased, minus an allowance to offset any "bad debts". Past experience, analysis of economic conditions and reviews of individual accounts are used to determine the appropriate allowance amount. **Inventories** include all the containers, packaging and raw materials in storage, materials in the process of being manufactured and the finished products in our warehouses ready to be sold.

The **Property, plant and equipment** item shows the original cost of all these assets, minus the depreciation already taken to cover their wear, tear and obsolescence. Accumulated depreciation reduced the value of these assets to $584 million. However, the cost to replace them today may well be substantially higher. Land is not depreciated, but remains on the books permanently at its original cost.

proximately half of its earnings in taxes. This figure shows the total of all those taxes which are due on 1975 earnings.

**All taxes on income per share:** This number indicates how much money we paid in taxes for each share of common stock outstanding.

**Dividends to stockholders:** Dividends are that portion of earnings received by Kraftco's owners as a return on their stock investment. Each quarter, the Board of Directors analyzes performance and determines the amount of dividend, which is paid out from earnings after Kraftco has deducted its tax obligations. Stockholders then must pay an additional federal income tax on the same earnings which they received in the form of dividends. This "double taxation," as it is called, is a controversial issue. It makes a company's task of raising funds for modernization and expansion more difficult.

**Dividends to stockholders per share:** This shows the exact dollar-and-cents return received by owners for their investment in each share of Kraftco stock. Kraftco's owners have received a cash dividend every quarter since the company's founding in 1923, a total of 208 consecutive payments through 1975.

**Capital expenditures:** Each year, Kraftco must spend millions of dollars to modernize and expand manufacturing facilities and distribution systems. Investments such as the new multi-product processing and distribution center near Namur, Belgium, or the highly-automated Swiss cheese plant in Middlebury, Vt., enable the company to produce more goods with greater efficiency. These investments are called capital expenditures. Without them, the company's production capacity and productivity would gradually decline and Kraftco no longer could compete effectively.

**Depreciation:** The gradual decline in the useful value of an asset (a building, machine, tool) due to wear and tear or obsolescence is called depreciation. By subtracting this amount as a cost from sales revenue each year, Kraftco, in effect, sets aside funds to replace assets. Depreciation is calculated on the original cost of an asset, but its replacement cost may be much higher. The difference must come from retained earnings or borrowings. For example, Kraftco's 1975 depreciation charge totaled $52 million, while the company actually spent $117 million in capital expenditures. Depreciation, thus, provided less than half the needed funds.

**Stockholders' equity:** Kraftco's total assets at year end 1975 ($1.671 billion) minus total liabilities ($733 million) equals its net worth, or stockholders' equity of $938 million. This figure represents the stockholders' total interest in the company. Each year, stockholders' equity increases by the amount of earnings retained in the business. The 1975 figure of $86.3 million ($139.5 million earnings minus $53.2 million dividends paid) is a strong improvement over 1974's retained earnings of $42.5 million.

**Number of stockholders:** At the end of 1975, Kraftco stock was held by 65,209 investors. They include individuals, trusts, pension funds, colleges, religious organizations and hospitals. One shareholder might own a large number of Kraftco shares as part of a pension fund portfolio covering thousands of individuals. Thus, the number of people benefiting from the company's stock and dividends is many times larger than the number of shareholders on record.

## Message to Stockholders (page 2)

Each year, the Chairman and President write a letter to the stockholders which briefly discusses some of the internal and external factors that influenced company operations during the year. The letter provides an overview of Kraftco's performance in a changing environment. The message also highlights some of the broad opportunities and problems ahead.

A recent survey of stockholders indicates that the message from the chairman and president, and financial highlights are the most widely read sections of the annual report.

### The Annual Meeting Announcement
(inside front cover)

The officers of Kraftco Corporation (see page 32) are responsible to the Board of Directors for company operations. The directors, in turn, are elected by stockholders to represent their interests as owners. Stockholders of publicly owned companies are entitled to attend an annual meeting. In addition to electing directors and voting on proposals submitted by management and individual stockholders, the owners have an opportunity to discuss and ask questions about the company's business. Each Kraftco stockholder is allowed one vote for each share of common stock owned on the record date set for the annual meeting. The date is an advance cutoff point for preparing annual meeting materials necessary because company owners constantly change as they buy and sell stock.

In recent years, Kraftco's Annual Meeting has been rotated among major cities to reach as many stockholders as possible. Stockholders who cannot attend in person may vote their shares on all proposals in advance by mailing back the proxy card sent to all shareholders with a proxy statement by the company. A proxy statement contains background information that may help stockholders decide how to vote on the proposals scheduled for action at the annual meeting.

### The Form 10-K Offer
(inside front cover)

Each year, publicly owned corporations must file a detailed statement containing primarily financial information with the Securities and Exchange Commission, a copy of which is sent to the New York Stock Exchange. The annual report provides a shorter version of this statement. All 10-K reports are public and copies may be obtained from Kraftco or the SEC.

### Financial Highlights (page 1)

Financial highlights presents key 1975 results at a glance. It provides a quick comparison of the company's performance with the previous year.

**Sales:** This figure consists of the dollar amount of all goods and services purchased from Kraftco.

**Earnings:** This is the sum left over after all expenses of purchasing raw materials, producing and selling goods, and taxes have been subtracted from sales. Earnings, "the bottom line" figure, tells the amount of profit Kraftco made last year. Earnings are important for several reasons. First, they provide stockholders with a return on their investment in the form of dividends. Second, earnings, or profit, are retained by the company to provide the means of meeting its obligations to itself and to others. Earnings are necessary to replace worn-out or obsolete facilities; to meet growing consumer needs; to provide a dependable market for raw food products from the farm; to contribute to the general welfare in other ways; and by doing so, to create necessary jobs and assure economic security for employees and suppliers.

**Earnings per share:** This figure relates earnings to individual shares of stock, the units of ownership which investors purchase. This number is calculated by dividing the number of common shares outstanding into the dollar amount of earnings after taxes have been paid.

**Earnings per dollar of sales:** The amount of profit earned from each dollar of sales is computed by dividing sales into profit. This figure is significant as another way of comparing the year's performance with that of the previous one. In 1975, Kraftco earned about 2.9 cents profit from each dollar of sales. This result represents a major improvement over 1974's depressed 2.1 cent figure and fine progress in restoring our performance to the average 3.1 cent return recorded from 1963 to 1973.

**All taxes on income:** Each year, Kraftco pays federal, state and local income taxes in the United States as well as taxes in other countries where we operate. Kraftco pays ap-

# "Your Right To Know" Annual Report Guide

**The "Your Right To Know" economic information program was introduced last year to help Kraftco employees in the U.S. understand more about the economic system in which our company operates. This guide to the 1975 Annual Report is a part of that continuing program. It is intended to help those readers who may be unfamiliar with the terms and statements used in financial reporting.**

## Why an Annual Report?

An annual report is an accounting of performance sent from management to the company's owners, its stockholders. The Securities and Exchange Commission (SEC)—an agency of the U.S. Government—requires that corporations submit specific financial information to their stockholders each year. However, modern annual reports usually are much more than columns of figures.

The annual report contains a description of the company's objectives, organization and operations, as well as a discussion of opportunities and problems of the business environment. In addition to stockholders, other audiences are interested in this information including employees, customers, suppliers, investment analysts and government officials.

On the following pages of this special section, the elements in Kraftco's 1975 Annual Report are explained.

# YOUR
# RIGHT TO
# KNOW

# Kraftco Corporation

# Annual Report 1975

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## Financial Highlights

(Dollars in thousands, except per share)

| | 1975 | 1974 |
|---|---|---|
| Sales | $4,857,378 | $4,471,427 |
| Earnings | $ 139,551 | $ 94,627 |
| Per share | $5.01 | $3.41 |
| Per dollar of sales | 2.87% | 2.11% |
| All taxes on income | $ 128,678 | $ 82,222 |
| Per share | $4.62 | $2.96 |
| Dividends to stockholders | $ 53,305 | $ 52,161 |
| Per share | $1.92 | $1.882 |
| Capital expenditures | $ 117,362 | $ 94,164 |
| Depreciation | $ 52,376 | $ 49,150 |
| Stockholders' equity | $ 938,476 | $ 850,011 |
| Number of stockholders | 65,209 | 66,320 |

## Message from the Chairman and President:

In 1975, Kraftco's worldwide sales reached a record level of $4.9 billion, representing an increase of 8.6 percent over the previous high of $4.5 billion, achieved in 1974. Net income in 1975 rose to $139.5 million, the highest in company history.

These results are gratifying for reasons which go beyond the actual figures. First, they reflect the direct participation of thousands of Kraftco employees in the tasks of improving efficiency and controlling costs. It was a year of achievement for the individual in Kraftco.

Second, the year witnessed Kraftco's ability to cope with short-term economic conditions, such as unusual fluctuations in various costs and prices, and, at the same time, to vigorously pursue long-range programs. As we have often remarked, Kraftco is a four-season company and its results can be properly evaluated only within the perspective of years, not fiscal quarters.

Our attitude toward the coming year can best be described, perhaps, as one of realistic optimism. The constraints now at work in the world economy, which slow progress or dilute the results of our efforts, will not vanish overnight. The growing impact of government in many areas of our corporate life must be moderated and, in time, reversed. For now, however, too much government is a fact of life which, realistically, must be included in all our plans.

In planning for the orderly operation of our company, it is important to recognize factors which we cannot control. We cannot control the price of energy, for example, nor that of transportation. We will continue, however, to plan and manage our use of these necessities to the best of our abilities. Also, we will be vigilant in deploying Kraftco resources to best advantage where we ourselves have control.

With increasing competition for available capital funds, we are emphasizing return on capital employed as a criterion in judging results, in addition to other yardsticks for measuring performance. In any new undertaking, the expense of meeting the capital requirement is included with other costs which are involved.

Our technology is up to date. Our knowledge, our skills and our facilities are continually being reviewed and refined to maintain a position of leadership in the state of the food manufacturer's art.

In addition to ongoing market research activities, short-term independent study programs are initiated from time to time. A current market research project, which is free of internal limitations, was set up in 1975 to explore new opportunities.

Communications at various levels were emphasized throughout the company in 1975. Many of you recall receiving copies of "The Money Year," which was distributed to all United States employees as part of a continuing economic information program. The program, called "Your Right to Know," is intended to help all of us who work for Kraftco to better understand the free competitive market system, based upon our own company's experience. We hope improved knowledge and understanding will generate stronger support for that system among our employees and our stockholders.

A revision of pension and medical insurance benefits for retired employees provided a welcome opportunity to communicate with men and women who have served Kraftco over the years. And, their responses clearly expressed pleasure at knowing that they continue to be regarded as an important part of the Kraftco family.

Last fall, Kraftco executives from around the world gathered at a company conference for a look toward the year 2000. The three-day session focused on gaining better understanding of the marketplace of the future through the insights of specialists and authorities from many fields. Regardless of the current good state of our corporate health, we are making in-depth studies of our own organization as an essential step in preparing for what we believe lies ahead.

Any discussion of Kraftco's future must include a reaffirmation of our own confidence about the earth's long-term capacity to provide adequate food for mankind. Kraftco's involvement in developing new food products for consumers of the future is described later in this report. We believe, however, that any permanent solution to world food requirements will depend on two economic conditions. First, farmers in many countries must be motivated, through technological, distribution and marketing assistance, to emerge from their present systems of subsistence farming. Second, because the United States is the most productive agricultural country in the world, we must be certain that American farmers have adequate profit incentives to assure full production during the critical years of world food shortages just ahead.

It has been a source of deep satisfaction to report a year of record earnings to you, our investors, because without profitability Kraftco lacks the means of sustaining itself and building for future growth. But, our responsibilities go beyond earning a profit. We are responsible as well to suppliers, to customers and to millions of consumers who have relied on our products through the years. Ultimately, we are responsible for living up to our personal standards as well. In a large sense, Kraftco's success has been the direct result of the individual employee's pride in food craftsmanship, and personal commitment to excellence in all that the company does.

In conclusion, a number of milestones should be noted.

Gordon Edwards, former chairman of the board, will not stand for re-election to the Board of Directors in keeping with its retirement age policy. He is rounding out a distinguished career of nearly 49 years with Kraftco.

Sam Cooper will soon retire after 46 years with HumKo Products, including 24 years of outstanding service as president of the operation. His successor is Luke Davis, former senior vice president of production, Kraft Foods.

Louis E. Lynch, who joined the company in 1947, retires this year as vice president of government relations; John J. Beatty III, who has worked closely with Mr. Lynch for a number of years in governmental affairs, was elected to succeed him.

Outside the United States, Charles E. Scott was named president of Kraftco's Canadian subsidiary, Dominion Dairies Limited, succeeding Frank M. Warnock who resigned in 1975. Also, O. E. Pelling became managing director of Kraftco operations in Australia following the retirement of George H. Gibson.

During 1976, Kraftco will celebrate 50 years of operations in Australia. It is a pleasure to congratulate fellow employees in that country for their contributions to the company's growth.

On behalf of the Board of Directors and our fellow employees, we thank you, our investors, for your continued support.

William O. Beers

William O. Beers
Chairman of the Board and
Chief Executive Officer

A.W. Woelfle

Arthur W. Woelfle
President and
Chief Operating Officer

March 5, 1976

# Focus on Issues 1975

## Introduction

As a modern food processor, Kraftco is a converter of agricultural raw materials. Further, Kraftco is the marketing arm of the farmer, whatever his product may be: milk or mustard, soybeans or sugar, cheese or cherries. In a technological culture, marked by increasing specialization of effort and by greater distances between consumers and the original sources of their food, Kraftco's participation covers virtually every aspect of today's food supply system.

Food processing is a complex task, and success comes in short steps. While technology rushes forward, consumers around the world tend to remain loyal to traditional food and eating habits. Acceptance of new food products comes slowly and is hard won.

In this edition of Focus on Issues, Kraftco's contributions as a food processor will be reviewed within the perspective of events and developments during 1975. But first, it would be helpful to mention briefly some of the social and economic changes which have occurred in recent years, and those which are taking place now.

Traditionally, homemakers expected to devote many hours each day to preparing meals. Raw food ingredients were grown in gardens and on local farms, while a small variety of products could be purchased at neighborhood grocery stores and markets.

In 1900, some 30 million persons, about 39 percent of the United States' population, lived in cities. By 1970, the percentage rose to 73.5, a total of 149.3 million persons, five times the urban population at the turn of the century. People have come to depend on food processors to provide a wide assortment of products which are safe, nutritious and available year-round.

Until the 1920's, food manufacturing was hampered by many limitations. Milk, for instance, just one of many perishable foods which had to be used quickly, was delivered daily to the family door. The development of modern refrigerating, processing and packaging methods helped reduce spoilage. The motor truck and improved highways enabled processors to deliver adequate amounts of food, without which the cities could not survive. And, the modern supermarket, combined with the family automobile, made food distribution systems possible which take full advantage of productive capacities.

Also in this century, women have entered the work force in growing numbers. More than 44 percent of married women in the United States, some 21 million, are employed away from home. With fewer hours for household duties, these families rely on Kraftco for food products that are familiar, wholesome and appetizing, but also convenient to use.

Yet, in the past several years, the contributions of the food processor have come under scrutiny in the wake of rising prices, inflation and consumerism. One of the more intriguing developments has been a renewed interest in traditional—pre-industrial—ways of obtaining and preparing food.

The roadside farm stand is making a comeback. And, some farmers haul their garden products to town markets where people browse and buy seasonal food. Scratch cooking and home canning have become popular with some homemakers.

Nostalgia has doubtless been a factor in these revivals, in addition to the desire to reduce food costs. However, the great majority of modern consumers are busy with a variety of other activities.

While the social scientists analyze these minirevivals, the demand for Kraftco products continues to grow. It is the company's responsibility to determine, through marketing research, what food

*Chilton* home canning supplies by Aluminum Specialty were good sellers in 1975.

products consumers need and want. Scientists and research engineers must develop those products and the processes for manufacturing them. Raw materials and supplies are processed into finished products under rigid company standards and continuing surveillance by government agencies. The packaged products are moved promptly into distribution channels, and a broad range of communications programs are conducted to help those products compete successfully in the marketplace. And, all the while, ways must be found to meet consumer needs of the future.

**Raw Materials**

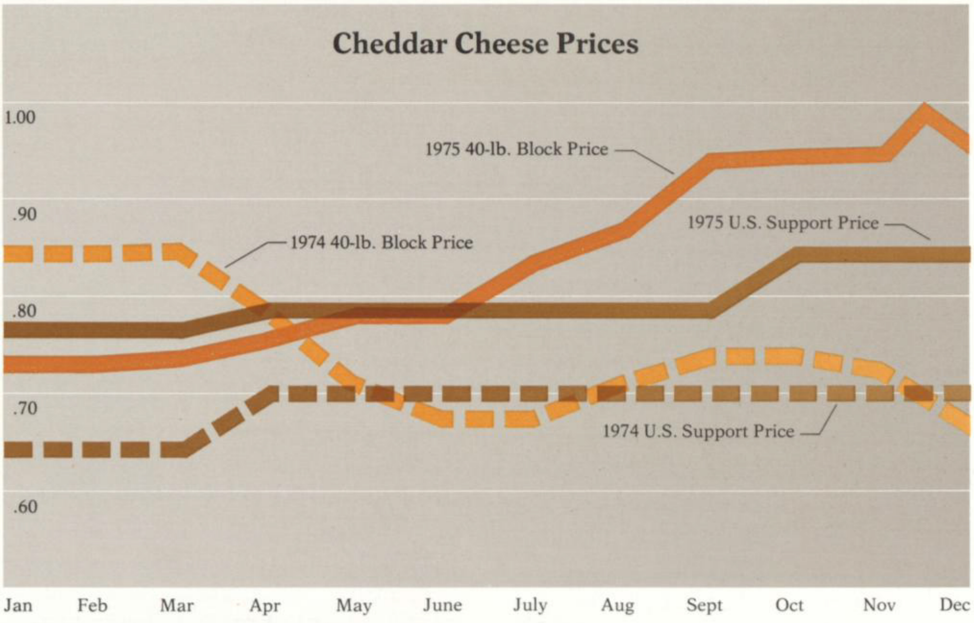
One of Kraftco's primary responsibilities to the consumer is purchasing quality agricultural products from farmers and other producers.

Product reliability, consistency and safety all begin with quality ingredients. As a broadly based food processor, and using modern inspection technology, Kraftco provides a steady market for producers of quality raw materials.

One obvious consideration in acquiring raw materials is their cost, for this in turn, is a factor in determining retail prices. Costs for two of Kraftco's major raw materials, milk and cheese, were higher in 1975 than in prior years. Other materials, such as vegetable oil and sugar, declined in price from recent record highs.

Total U.S. milk production in 1975 was about equal to the 115.5 billion pounds produced in 1974, according to the United States Department of Agriculture (USDA). Industry sales of fluid milk increased about two percent over 1974, with skim and lowfat milk showing strong gains. This reduced the supply of milk available for manufacturing purposes and milk prices for all uses continued to rise.

The USDA raised price support levels for milk twice in 1975. On January 4, the support price advanced from $6.57 to $7.24 per hundred pounds and again, on October 2, to $7.71. Wholesale milk prices rose sharply, reaching an average of $10.00 per hundred pounds in November, up more than $2.00 from the market low in June.



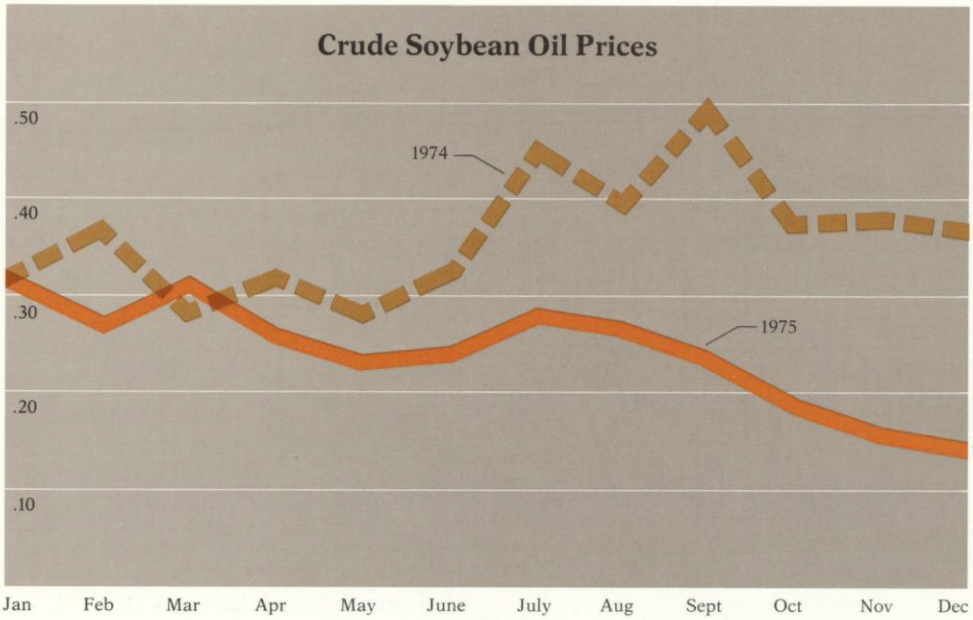
Wholesale price data: National Cheese Exchange

The wholesale price of 40-pound block cheddar cheese rose substantially, from 67½¢ on December 13, 1974, to $1.00 per pound on December 19, 1975. The USDA support purchase price for cheese was increased, from 70¾¢ to 77¼¢ per pound on January 4, 1975, then to 79¼¢ on April 1, and finally to 85¢ on October 2.

According to the USDA, cheese consumption in the United States has risen almost 85 percent since 1955. But, in 1975 it declined 0.5 percent. Despite depressed industry-wide results, Kraftco increased its 1975 U.S. cheese tonnage by 4.2 percent through innovative marketing programs and expanded product lines.

The USDA also reported a 4.6 percent shrinkage in total cheese production in 1975. Most of this decline was in American-type or cheddar cheese during the first half, with a recovery beginning in the fourth quarter. Other varieties, led by brick, cream cheese, Italian cheeses, Münster and Neufchâtel, increased about 10 percent in 1975.

Supplies of vegetable oils—used in Kraftco products such as shortening, margarine, mayonnaise and salad dressings—continued to improve in 1975, buoyed by the second largest U.S. soybean crop on record. Also, the world-wide recession affected total consumption of oil-based products and competition from other lower-cost oil sources, such as palm, combined with the large crop to reduce prices. The price

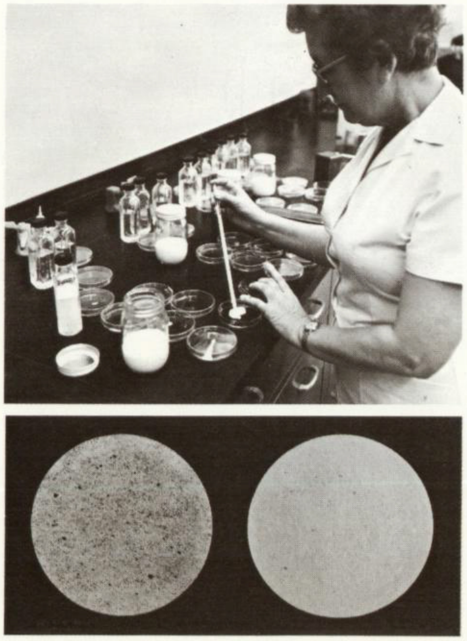


Data from: *The Wall Street Journal*

of unrefined soybean oil declined from the all-time high of 50½¢ per pound in September 1974, to 15¾¢ per pound at the end of 1975. Even at year-end, however, the price for unrefined soybean oil was still almost 58 percent above the historic average of 10¢ per pound.

Butter provides another example of higher raw material costs. The wholesale price of butter rose about 36¢ per pound in 1975.

As total costs increase—of which raw materials are a significant part—Kraftco selling prices are adjusted upward. Conversely, when costs decrease, Kraftco has an opportunity to reduce selling prices to retail, industrial and food-service customers. During the second half of 1975, lower costs for raw materials, including vegetable oil and sugar, resulted in lower prices to the supermarket on a wide range of Kraftco products, including mayonnaise, *Miracle Whip* salad dressing, oil and shortening, pourable dressings, *Parkay* margarine, jellies and preserves, and some confections.



Scorching, which can occur occasionally in heat treatment of milk powder, is not acceptable in meeting the quality requirements for *Breakstone* and *Sealtest* cultured dairy products. The filter paper shown at left indicates that this lot of dry skim milk powder would be rejected. The sample tested and illustrated at right is approved for purchase.

One of Kraftco's responses to fluctuations in the supplies and costs of raw materials is increased emphasis on evaluation of alternative ingredients. A recent result of this work is Kraftco's imitation colby cheese, *Golden Image*, described on page 14. Imitation cheeses of the future may offer consumers readily available alternatives to natural cheese if the demand for dairy raw materials should exceed supply.

In any evaluation of alternative ingredients, Kraftco checks carefully for changes in product characteristics. The company has a firm policy of not reducing quality in order to save on ingredient costs, despite frequent opportunities to follow such a course. Thus, one effect of inflationary pressures on the cost of materials has been the need to invest more dollars in research to assure continued quality.

Through rigid inspections of incoming raw materials, the food processor contributes to consumer health, nutrition and enjoyment. For example, the photographs on this page illustrate part of the week-long series of Kraftco's laboratory inspections made of dried milk powder, before it is purchased for use in sour cream, yogurt and other cultured milk products.

### Manufacturing and Packaging

A continuing trend in Kraftco manufacturing operations has been the construction of multi-product processing and distribution centers at major crossroads in world markets. The most recent of these to begin operations is near Namur, Belgium, which is ideally situated to serve the Common Market group of nations. Production began in 1975 with a staff of about 500 employees and total employment is expected to reach 1,200 when the plant becomes fully operational. Product lines include natural and process cheese, *Mirácoli* dinners, salad products and special sauces. By the end of 1976, products from Namur will be distributed in Germany, the United Kingdom, France, Holland, Italy and Luxembourg, as well as in Belgium.

In addition to major multi-product processing and distributing centers, Kraftco continues to construct or improve special-purpose facilities in order to achieve the most efficient blend of production operations. For example, a highly efficient Swiss cheese manufacturing plant at Middlebury, Vt., began operations in June. An adjacent farmers' cooperative pipes 700,000 pounds of milk per day directly into the cheese plant. Our operation, which functions around-the-clock on a seven-days-per-week schedule, can produce 55,000 pounds of Swiss cheese each day from this quantity of milk. After the cheese is aged, it is shipped in 170-pound blocks, primarily to our plant near Allentown, Pa., for cutting, packaging and distribution. The interaction between the Middlebury facility and the local cooperative illustrates how Kraftco works as converter and marketer for farmers.

The corporation's bulk cheese plant at Remé, in northwestern Spain, was extensively remodeled and modernized during 1975. The 12,000 square foot facility is used to manufacture natural cheese for the Spanish market.

Additional equipment was installed at Kraftco's vegetable oil refining plant in Champaign, Ill. The addition will enable the facility to make full use of existing processing equipment, thereby increasing output by 150 million pounds per year. Kraftco refines 18 percent of all the vegetable oil produced in the United States, and the Champaign facility provides a significant percent of our total capacity.

Also in 1975, construction was completed on a plant in Centralia, Ill., to house a new film-printing operation. The plant will supply printed packaging film for use in the corporation and for sale to other customers. This plant augments present folding-carton, injection-molding, extrusion, laminating, flexible packaging and metal-fabrication facilities.

ZIZ
KRAFT
Mirácoli
Sottile
Mayonnaise
FAMILY PACK
ZIZ
LaSante
Thousand Island
BLEUETTE
franco-Suisse
Tranchettes
Gruyère
Schaschlik Sauce
Emmentaler
Tranchettes
Gouda
Sottile
VOLVET
met boter
au beurre
franco-Suisse
Tranchettes
Chester
Extra
Schinken
Scheibletten
10

Kraftco's multi-product plant near Namur, Belgium, will produce a large selection of products for consumers in Europe.

The year 1975 also was marked by an expansion of industrial chemical laboratory facilities in Memphis, and completion of a new plant in Norwich, N.Y., for the manufacture of yeast-cultured whey. The Norwich plant is currently capable of producing eight million pounds annually of a high-quality, edible-grade product that contains both yeast and whey protein. Strategically located, the plant receives whey from Kraftco plants throughout the Upper New York State milkshed, thus meeting a significant by-product disposal need. Yeast-cultured whey is marketed as a source of protein and as a flavor enhancer. Its potential long-term significance to world food supplies is described in the section on Research and Development.

Manufacturing operations were hampered by two major labor disputes during the year. The six-month strike at our 1,000-employee plant near Allentown, Pa., was settled on July 25, when the United Auto Workers Union accepted substantially the same contract terms as originally offered in January. Prior to settlement, despite mass-picketing and acts of violence, the plant was reopened for production June 30 with the support of more than 300 bargaining-unit employees, supervisors, office and management personnel.

In September, settlement was reached ending a six-month strike by the Teamsters and Food and

Aspects of Swiss cheese production at Middlebury, Vt., include: adding a "starter" culture; spraying and soaking cheese in brine solution; checking eye formation; and loading of 170-pound blocks for shipment.

20 21 MIDD
1756

Allied Workers Unions at the processing plant and distribution center in Vancouver, B.C. The principal area of disagreement was wages. Products processed in Vancouver were not replaced on supermarket shelves during the strike. Despite the loss of local sales during the strike, Kraftco sales throughout Canada increased 17.3 percent in 1975.

Kraftco's production work force remained relatively stable in 1975. The company's ability to provide steady employment is in healthy contrast to the number of plant shutdowns and resultant employee lay-offs that have occurred during the year in other industries.

Energy, its availability and its increasing cost, continues to be a management concern. Kraftco has further refined its production plant and vehicle energy control programs to meet specific conservation objectives. Major processing plants now have Energy Conservation Committees, and monthly consumption reports provide a means to monitor results.

During 1975, Kraftco's use of energy per unit of product was reduced 2.7 percent. Despite this conservation success and the above-average temperatures in 1975, the corporation still experienced a 27.0 percent increase in energy cost compared with 1974. In another area of concern, Kraftco reduced gasoline and diesel fuel use more than 8.3 percent during 1975 throughout the corporation's vehicle fleets. Significant conservation improvements in fuel and electrical use are anticipated during 1976 as modifications in equipment and new energy-saving systems become operational. As part of a national effort in 1976, the corporation will begin reporting results of these energy efficiency programs.

Kraftco's manufacturing plants are concerned not only with efficient production, but also with conservation and protection of the environment. For example, reclamation centers are in operation to recycle glass at each of our four glass-container manufacturing plants. Since the first center was opened in 1970, more than 91.5 million pounds of glass have been recycled. Use of recycled glass in the plants results in some savings of energy and of raw materials. It also helps to alleviate a waste disposal and litter problem.

In another area of environmental control, electrostatic precipitators were installed as part of the furnace exhaust system at these same glass manufacturing facilities. The special devices capture particulate matter which might otherwise be emitted into the air. The $1 million cost of these installations represents but a small part of Kraftco's total investment program in protecting and improving the environment.

Packaging at Kraftco is an integral part of food processing. Packaging research serves consumers by maintaining freshness and wholesomeness of food products, with maximum safety, at reasonable cost.

Perhaps the most significant packaging innovation of recent years occurred in 1975 with the preliminary market introduction of the *Kraft* Pan. The container is used to package entrees such as chili with beans, beef stew, and macaroni and cheese for the foodservice industry. *Kraft* Pan is doubly important because it paved the way for an advance in food processing called the *Fasterized* method.

*Kraft* Pan is a flat container that holds 106 ounces of product. It is formed of thin steel in the exact size and shape to fit half the opening of a standard steam table. After the pan is filled, it is sealed and retorted under pressure at high temperatures to kill bacteria and prevent spoilage. This processing innovation is called the *Fasterized* method. Because the contents are exposed to heat for only a short time, the flavor does not deteriorate as it does in cans. In comparison with frozen, canned, or in-house prepared foodservice entrees, *Kraft* Pan offers substantial savings in preparation time, production labor cost and energy. It reduces cost of distribution, storage and cleaning after use. Finally, *Kraft* Pan entrees can be stored without refrigeration for as long as one year.

Last September, the U.S. Food and Drug Administration (FDA) proposed a ban on the use of polyvinyl chloride (PVC) in rigid food containers. As a result of our ongoing packaging research activities, however, Kraftco had already adopted new packaging materials for one product line, *HumKo* vegetable oil, well before the date of the proposal. Conversion to materials not under question by the FDA is now being completed for the only remaining product line involved, which is marketed to the foodservice industry.

KRAFT
Chili with Beans
A Facility Food

*Kraft* Pan entrees provide benefits to the foodservice industry through an innovative packaging concept.

**Marketing and Distribution**

In 1936, your company ushered in the age of convenience meals with the *Kraft* macaroni and cheese dinner. The box contained instructions on how to "make a meal for four in nine minutes." The product was sold at 19¢, or less than 5¢ per serving. Since its introduction, this item has been reformulated and improved until, 40 years later, it is still the largest-selling packaged dinner in the world. And the average retail price is hovering between 29¢ and 31¢. Sales tonnage of the entire dinner line, which now includes varieties of spaghetti, and noodles with chicken, in addition to the original macaroni and cheese, increased by five percent in 1975.

This success story was possible because Kraftco has strengths and capabilities far beyond those available in a simple market system in which consumers purchase foods directly from farm sources. As a large processor, Kraftco can take advantage of advances in technology and of economies of scale that could not exist outside the present system. Consumer reliance on Kraftco's particular expertise was reflected in increasing sales and steady market expansion in 1975.

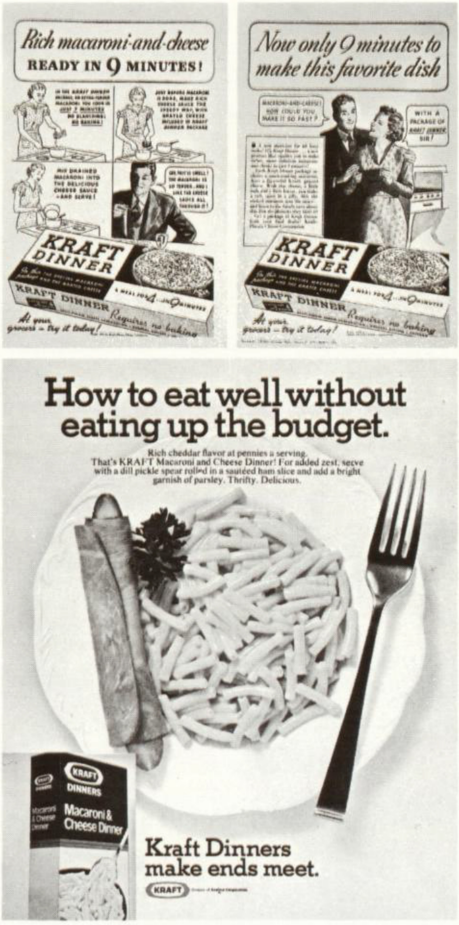
The annual percentage increase in sales tonnage of our premium, branded, ice cream lines was the largest in the last 10 years. It is a curious fact that quality ice cream has been a "depression proof" food over the years. In periods of recession, consumers appear to turn to the best flavor treat available —premium ice cream—as a partial compensation for other sacrifices required by the times. Total sales tonnage, including *Breyers* all natural ice cream, *Sealtest* ice cream and *Light n' Lively* ice milk, increased 14.4 percent during the past year. The total industry market for ice cream and ice milk, which includes unbranded, private label lines, rose only 4.8 percent in 1975, according to the USDA.

The sales growth of *Sealtest* ice cream was supported by an innovative marketing approach, incorporating new packaging and advertising. This program, developed in 1974, is built around the theme, *"The Supermarket Ice Cream with that Ice Cream Parlor Taste."* The past year saw the re-introduction of an old-time favorite flavor, "Heavenly Hash." Additional flavors are planned for 1976, beginning with "Red, White and Blueberry."

The *Light n' Lively* ice milk product line is distinctive for its many flavors. Peach, coffee and orange-pineapple were introduced in 1975. The name and attractive packaging of *Light n' Lively* have proved so effective that other companies have attempted many imitations.

Kraftco's yogurt sales continued to keep pace overall with this fast-growing market, which has increased six-fold since 1965. *Light n' Lively* yogurt, reformulated with natural flavors, outpaced the industry.

Although it is marketed in only 20 states, *Breakstone* sour cream is the country's best seller. In 1975, *Breakstone* sour cream, cream cheese, butter, snack dips and cottage cheese were expanded into additional Midwest market areas. Also, the new line of sour cream-based salad dressings was moved into distribution in the Southeast, spurring plans to bring them to other markets by mid-1976. Finally, sales of *Breakstone* dips increased almost 25 percent over 1974.


Forty years of advertising *Kraft* dinners . . .
Rich macaroni-and-cheese READY IN 9 MINUTES!
KRAFT DINNER
At your grocers – try it today!
Requires no baking
Now only 9 minutes to make this favorite dish
MACARONI-AND-CHEESE! HOW COULD YOU MAKE IT SO FAST?
WITH A PACKAGE OF KRAFT DINNER SIR!
KRAFT DINNER
At your grocers – try it today!
Requires no baking
How to eat well without eating up the budget.
KRAFT DINNERS
Macaroni & Cheese Dinner
Kraft Dinners make ends meet.
KRAFT

Rich cheddar flavor at pennies a serving. That's KRAFT Macaroni and Cheese Dinner! For added zest, serve with a dill pickle spear rolled in a sautéed ham slice and add a bright garnish of parsley. Thrifty. Delicious.

Sales tonnage of *Kraft* citrus products has increased 110 percent since 1970, well ahead of the industry gain of 71 percent for comparable products in the same period. In fact, this product line has broken monthly sales records during 41 out of the last 45 months through the end of 1975. However, increased consumption created some retail out-of-stock problems for juice products during the year.

Consumers responded favorably to newcomers in the *Casino* brand cheese line in 1975. Three new flavors of *Casino* cold pack cheese foods —Swiss, blue cheese and jalapeño pepper—were introduced in nationwide distribution during the latter part of the year.

The U.S. foodservice industry, which has more than doubled its volume in the last decade, is another area in which Kraftco applies its marketing skills. Foodservice is in a virtual tie with general-merchandise retailing as the country's third largest consumer industry, behind the retail food and automobile industries. In 1975, about 35¢ of the average family's food dollar was spent for meals away from home. This tremendous market is growing at a rate roughly twice as great as the more mature retail market. Kraftco's foodservice sales in 1975 were $646.7 million.

Holding costs in rein and improving the productivity of foodservice employees are serious concerns in that industry. In response to this need, Kraftco introduced the *Kraft* Pan line of meal entrees in 1975, as described in the Manufacturing and Packaging section. The *Kraft* Pan entrees are among hundreds of products that the company supplies to the foodservice industry.

Kraftco also is active in the growing foodservice industry in other countries. The majority of international operations include foodservice businesses, and most of the others propose to add them soon. Kraftco's Venezuelan subsidiary is the latest to start a foodservice business, serving three major cities during 1975. The operation now has 25 products, with plans to develop more.

In other international marketing developments, Kraftco's subsidiary in the United Kingdom introduced two new retail products. *Toastreat* flavored process cheese was launched nationally, and experienced excellent first-year sales. And in December, the company began

Breakstone
Sour Cream
Thousand Island
Cucumber & Onion
Creamy Italian
Green Goddess
French
Blue Cheese
Keep Refrigerated
Shake Well

*Breakstone* sour cream-based dressings are being introduced in more areas following successful test marketing.

marketing a seven-ounce tub of *Dairylea* cheese spread, previously available only in packages of small, individually-wrapped portions.

Also, last year, Kraftco introduced artificially-flavored jellies to the Philippine market. The product line, which was developed to satisfy the needs of a market where certain fresh fruits are not available, has been well received.

Kraftco supports its worldwide marketing programs with advertising that usually provides the consumer with helpful information. Through experience, Kraftco has learned that recipes and serving suggestions are appreciated more than any other information.

Kraft Foods carried this idea forward in an innovative way during 1975. In commercials for two family TV specials sponsored in the last quarter, Kraft presented "how to do" food ideas using a variety of products. The recipes were made available to viewers in an advertising insert in *TV Guide* magazine for the corresponding weeks. Research showed that readers in more than 2½ million households saved the recipe inserts after each telecast. Further research indicated that a large percentage of those families actually used one or more of the recipes within two weeks of the show. Because of its unusual success, this advertising concept will be continued in 1976.

Marketing in the black community was expanded in 1975. One program which combines publicity with advertising through black newspapers and radio stations now reaches consumers in more than 30 cities. Company representatives introduced the program to grocery retailers in three major cities and encouraged participation in product promotions.

**People Reaching People**

Kraftco is a company of individuals, working together with other persons and groups, both within and beyond the corporation. This interaction is essential to corporate success, and requires clear, direct communications. Interaction also requires innovative programs to meet the special needs of consumers, suppliers, employees and others.

In some of these areas, Kraftco's leadership has long been established; and the company is making rapid progress in others. A few programs are briefly discussed here. a common thread running through them all is the value somtimes called "social responsibility." Elements of self-interest are here, too, for a company cannot serve others without serving itself as well.

In 1975, Kraft Foods initiated a communications program oriented toward consumerism. "The Consumer's Right to Know" is directed to broadcasters, consumer advocates, editors, educators and government regulators. These people were chosen because of their role in communicating to consumer audiences.

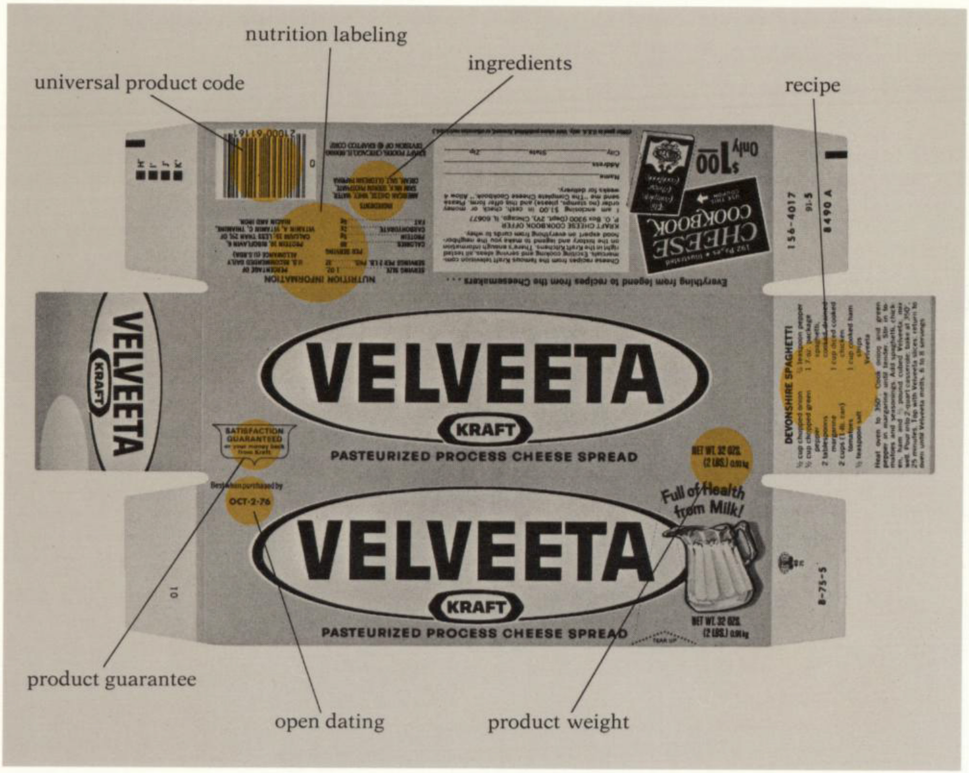
Elements in the information program are: quarterly newsletters which carry articles on current consumer issues, such as food additives, packaging, nutrition and labeling; booklets which provide more detail on those and other key topics; consumer and trade publication advertising to explain the data provided on Kraftco labels; and news releases on all these subjects.

As part of "The Consumer's Right to Know" program, 65 public service messages were taped for use by radio stations serving black communities. The one-minute messages present brief discussions on matters such as shopping and meal planning, food additives, nutrition, product safety and quality control. Of 53 stations receiving the series, 38 broadcast it—a good rate of 72 percent.

Kraft's ongoing nutrition education program was honored again in 1975. The film, "The Great Food Show," and an accompanying educational kit, "A Growing Story," received one award. Another was received for the advertisement, "Rise and Dine," which stressed the importance of breakfast in the daily diet.

In another area, the packaging of many Kraftco products has been redesigned to accommodate additional information for the consumer. The *Velveeta* package shown here is imprinted with the following data: an open dating code to help assure the product's freshness when it is purchased and used; the product weight, stated in pounds and/or ounces and the equivalent amount in metric units; nutrition information, including the percentages provided of U.S. recommended daily allowances of essential nutrients; a list of ingredients; a product guarantee; a recipe; and, finally, the new Universal Product Code, designed for use in supermarkets with computerized checkout counters and inventory control systems.

Product labels can be used to present many types of information.



Not all products lend themselves equally to a standardized system of informational labeling, but the *Velveeta* carton shows how this material can be presented when required by company policy or by law.

In 1975, new dimensions were added to Kraftco affirmative action programs for the advancement of minorities and women. Programs that proved effective when they were initiated are being strengthened and implemented throughout the company. Also, experience gained through these efforts is now being communicated to other companies and organizations as a cooperative means of furthering equal opportunity and economic development throughout the communities in which we operate.

Positive experiences with minority construction contractors in one division became the nucleus of a corporate program in 1975. Company engineers met with representatives from the minority construction industry to discuss experiences and contract development. The volume of contracts placed with minority construction firms since 1973 reached $2 million during the past year.

Kraftco's association with the Mexican American Opportunity Foundation of Los Angeles was expanded to include representatives of other companies in Southern California. In 1975, Kraftco introduced business and civic leaders to the foundation which resulted in increased local support for this organization's programs. The company was honored in 1975 as a recipient of this group's Aztec Award.

Kraftco representatives met with members of the National Insurance

Association and the National Newspaper Publishers Association during their 1975 conferences to tell how the company implements affirmative action programs of employment, economic development and consumer affairs for minorities and women. The company also helped organize the 1975 award dinner of the Chicago Economic Development Corporation.

Kraftco's own affirmative action programs contributed to increasing the number of minorities, women and handicapped persons in upper-level job categories.

Just as equal opportunity is a firm corporate policy, so is commitment to the competitive free enterprise system. An economic information program called "Your Right to Know," was inaugurated for the 33,000 Kraftco employees in the United States. Slide film, posters, bulletins and small group discussions provided information about American business, drawing on Kraftco's own experiences.

A new element in the program is this annual report, which is being distributed to all U.S. employees. The special section attached to the inside front cover is intended to be a guide for employees who may not be familiar with the intricacies of financial statements or with the terminology of corporate reports.

Kraftco values and encourages employee efforts to increase productivity. Programs for this purpose have been emphasized for some years as a means of controlling costs and enhancing the return on Kraftco's capital investment. The results of these efforts are ultimately reflected in the company's earnings, but specific productivity increases merit special comment.

For example, Sealtest Foods' clerical productivity increased 18.4 percent during 1975, thus reducing expenses for the year by 4.2 percent.

Kraft Foods also reported substantial increases. Production workers chalked up the largest gain for the year: a 12.7 percent increase in productivity. Sales representatives achieved the second highest yearly gain, 8.8 percent; they also showed a remarkable 51.1 percent total increase in productivity from 1972 to 1975. And, distribution employees made an excellent increase of 8.0 percent in 1975.

Individuals made notable contributions to improved productivity. An employee in Boston introduced a concept in forms design that saves the company approximately $100,000 annually in postage and eliminates the need for an estimated six million sheets of paper.

OUR
Put the squeeze on inflation by increasing productivity
inflation
tardiness
incompetence
irresponsibility
incapability
inefficiency
inconsideration
inconsistency

Posters to encourage productivity were created by employees at many Kraftco locations during 1975.

Employee safety is of benefit to the company as well as to individuals. Therefore, Kraftco recognizes outstanding safety achievements each year through award programs. In the President's Safety Award competition, winners in five categories worked a total of more than 1¾ million manhours with only one disabling injury in all of 1975. Vehicle Fleet Safety Award winners in eight categories drove more than 5½ million miles with only one preventable accident. A significant result of increasing employee safety awareness was a five percent reduction of Kraftco's injury and accident expense despite the rising cost of medical care and vehicle service.

Kraftco's contributions to the total food manufacturing process begin even before the farmer's products are ready for sale. Because quality in the end product is affected by the quality of raw materials used, Kraftco people reach out to the farmers themselves.

For more than 50 years, the company has sponsored educational programs during the winter months for milk producers. The sessions are conducted in rural communities at schools, lodges and churches. Each year, farmers and their families are invited to an afternoon or evening of lectures and demonstrations bringing them the latest information on the breeding, feeding and management of dairy cattle. Outside authorities, including veterinarians, university scientists and public officials conduct classes on aspects of dairy farming. Many farmers look forward to these Kraftco-sponsored meetings as an opportunity to hear authoritative briefings on developments in their industry.

## Research & Development

The food processing industry has a hidden asset that is vital to the continued well-being of modern society. That asset is the collective work of food scientists and technologists employed in a company such as Kraftco. The results of this work are often unknown by the general public, and some new developments must await introduction until the marketplace is ready for them. Meanwhile, Research and Development continues to improve existing products and processes; to develop new products; to increase nutritional values; to extend usable shelf life and protect quality over longer periods; to design more efficient processing techniques; to safeguard both the consumer and the environment; and to search for alternative food sources.

Kraftco Research and Development considers problems well in advance of the time they become general concerns. For example, R&D's role in replacing polyvinyl chloride (PVC) with new packaging materials, in anticipation of more stringent governmental restrictions, is noted in the Manufacturing and Packaging section. Another instance of Kraftco foresight is the way the company approached the Red No. 2 question. In 1972, the company instituted a program of replacement and reformulation of those few products containing that dye. In January 1976, nearly four years later, the U.S. Food and Drug Administration announced a proposal to ban the use of Red No. 2. Kraftco, however, is under no pressure because it had already discontinued use of the coloring in the United States. Anticipation of the problem enabled Kraftco to effect an orderly transition.

In a similar manner, Kraftco anticipates the eventual need for reformulating familiar products with alternative raw materials. Knowing that people's tastes and expectations regarding food are slow to change and that some essential ingredients may not be plentiful, or may be too costly to use in the future, Kraftco has been intensively studying the use of substitute materials. Because products so reformulated do not meet standard definitions, we must sometimes refer to them as "imitations." But if these "imitations" are nutritionally or economically desirable for the general public, there is no need for the consumer to be hesitant about using them and taking advantage of their particular benefits.

In 1975, an imitation of a natural cheese—the first in Kraftco's history to be test marketed—was introduced on an extremely limited basis. The product, called *"Golden Image,"* is an imitation colby cheese. It is referred to as "imitation" because the fat content has been changed from 100 percent butterfat, which is standard in the natural colby, to 10 percent butterfat and 90 percent vegetable oil. This cheese product was formulated so that it provides the same levels, as natural colby, of all those nutrients which have been established as "essential" by the National Academy of Sciences —National Research Council. The use of vegetable oil in the manufacture of cheese could be highly advantageous if the demand for milkfat creates shortages and escalated prices.

The technology of producing imitation cheese is not new at Kraftco. However, such products have been considered marketable only recently

KRAFT
IMITATION MAYONNAISE
KRAFT
IMITATION MAYONNAISE
Half the fat of real mayonnaise

*Kraft* imitation mayonnaise contains half the fat and half the calories of real mayonnaise.

because certain U.S. governmental restrictions were repealed in October 1974. The future markets for these and similar products will be determined by the cost and availability of traditional raw materials.

In the "imitation" product area, R&D developed an item that won impressive consumer acceptance in 1975. The product is *Kraft* imitation mayonnaise, which recorded excellent sales in its present markets on the East and West Coasts. This product contains approximately half the fat of real mayonnaise, resulting in about half the calories.

Kraftco is giving increased attention to the development of alternative sources for many kinds of raw materials and essential nutrients. In 1975, all R&D protein research activities were consolidated in a new Protein Products Research Laboratory. This laboratory is responsible for an expanded research program in the nondairy protein area, using a newly-acquired plant to manufacture soy protein isolate—a protein concentrated from soybeans—for experiments and product applications.

Kraftco employs leading scientists in the nutritional field to work on projects that may sound to some like science fiction. For instance, some projects are designed to find high-protein, low-cost foods from nontraditional sources. Proteins derived from leaves, oilseeds, cellulose waste, petroleum, alfalfa and other natural sources have received extensive public and scientific attention as their potential uses for human nutrition are recognized. Kraftco's activity in this area has kept the company abreast of the latest developments.

But progress has been disappointing in some respects, and the reasons have generally been beyond the company's control. For example, a fortified, dry beverage base containing soy protein was formulated in Kraftco laboratories and test-marketed in Central America, where such a nutritional source could have been highly beneficial. It failed in test market because some local water supplies proved unsuitable for reconstitution.

Another project was initiated in an Asian country to develop inexpensive cheese-like products. These foods were designed to take advantage of various noncheese protein and fat sources. Several products were successfully developed in the laboratory, but subsequently were priced out of the market by prohibitive import duties on essential packaging materials and supplies.

Still, the search for new, low-cost nutritious food products continues as part of Kraftco's commitment to the future. A product of considerable current interest which appears to have great potential is single-cell protein derived from whey. Kraftco's interest has focused first on the need to dispose of whey (a by-product of cheesemaking) using methods which are environmentally sound, and second on recovering valuable nutrients which otherwise would be lost. Yeast grown on whey to create a protein-enriched animal feed supplement has been produced in Kraftco plants since the 1930's. This process is becoming more important as the costs of feed supplements increase and disposal problems multiply.

In 1975, Kraftco completed construction of a specialized production plant in Norwich, N.Y., to manufacture yeast-cultured whey. This plant is capable of producing eight million pounds annually of single-cell protein for human and animal consumption. The Norwich operation is described in the Manufacturing and Packaging section of this report.

Another promising use of whey is in combination with vegetable protein from soy, to produce whey-soy-drink mix. The resulting base simulates whole milk in nutritional properties and acceptability as a beverage, but at a much lower cost. After testing the formula, which was developed under the U.S. Food for Peace Program (AID), researchers at Kraftco believed that both taste and texture could be improved. The inclusion of our high-protein soy isolate, along with our yeast-cultured whey, resulted in the desired improvements. The reformulated drink mix is now being considered for use in lesser-developed countries through licensing agreements with local companies.

Because of countless variables in the technical, financial, legal and marketing aspects of product development—along with the political uncertainties of a changing world—it cannot be known if these and similar foods will be among Kraftco products in the future. But consumer needs and preferences, as expressed in the world marketplace, have always been decisive factors in determining our product mix. If those expressions are positive, Kraftco will provide the products, because that—in final analysis—is the essential role of a food processor in the modern world.

## Financial Review

*Analysis of Operations*
*(See summary page 27)*

### Sales

Kraftco worldwide sales during 1975 were $4.9 billion compared to $4.5 billion in 1974, and $3.6 billion in 1973, representing increases of 8.6% and 24.2%, respectively.

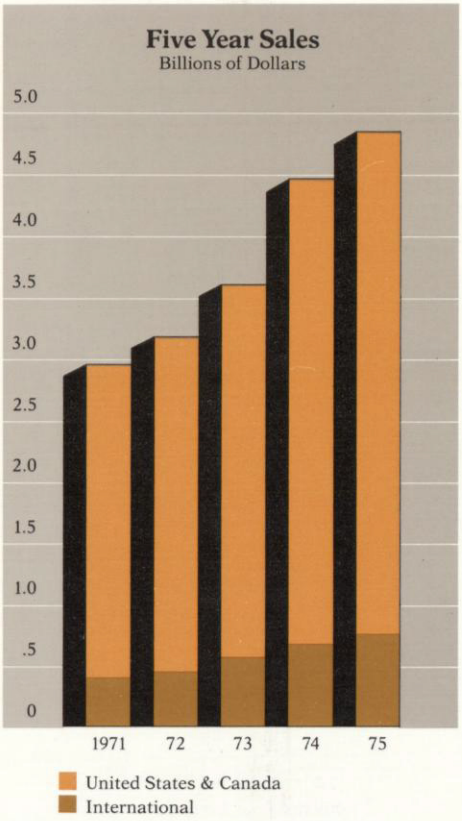
Sales outside the United States and Canada were $764 million, 11.9% over 1974 sales of $682 million, which, in turn, increased 19.4% over $571 million achieved in 1973.

Sales tonnage in each of the years 1975 and 1974 set records, although a substantial portion of the dollar sales increases can be attributed to higher selling prices necessary to recover escalating costs. The impact of inflation on sales was less in 1975 than in 1974.

The accompanying chart, reporting five-year sales by class of products, indicates that manufactured dairy products and processed foods account for the bulk of total sales as well as the greatest portion of the annual increases.

**Five Year Sales by Class of Products***

| | 1975 | 1974 | 1973 | 1972 | 1971 |
|---|---|---|---|---|---|
| Manufactured Dairy Products | 41.3 | 40.4 | 44.2 | 43.7 | 41.9 |
| Processed Food Products | 39.7 | 40.5 | 36.3 | 35.4 | 35.9 |
| Fluid Milk Products | 9.4 | 9.8 | 11.1 | 12.4 | 13.6 |
| Ice Cream & Frozen Desserts | 5.8 | 5.2 | 5.2 | 5.5 | 5.8 |
| Other Products | 3.8 | 4.1 | 3.2 | 3.0 | 2.8 |

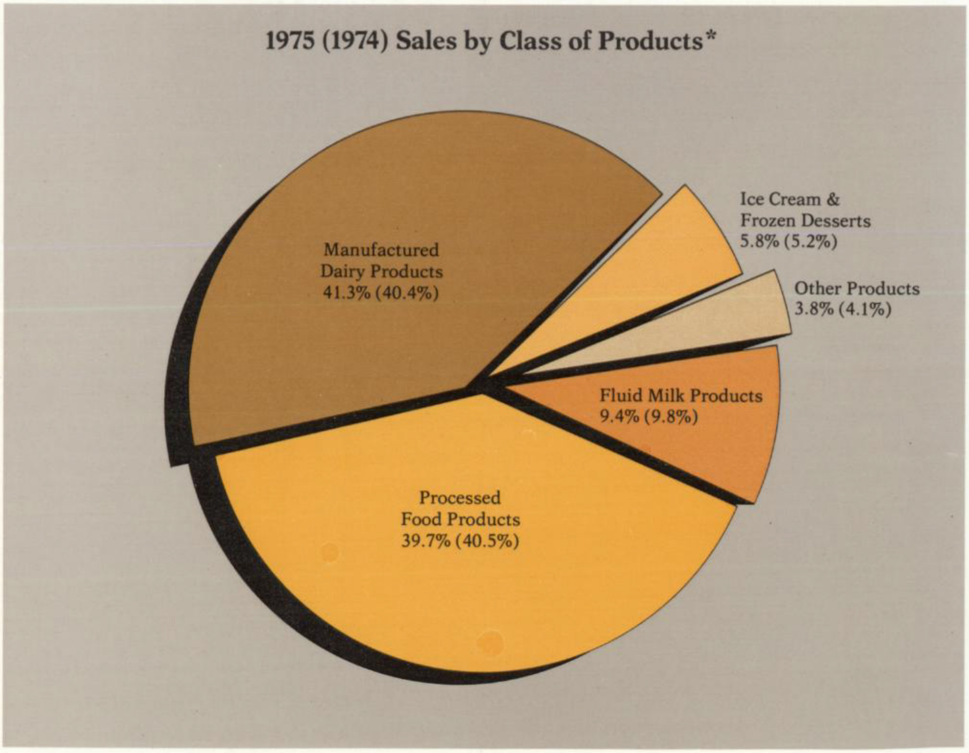


### Earnings

After-tax income for 1975 was $139.5 million, or 47.5% over 1974 earnings of $94.6 million which, in turn, represented a decrease of 8.5% from 1973. Earnings per share were $5.01, an increase of $1.60 from last year. Improved margins, increased sales tonnage, reduced interest expense, and continuing cost efficiencies were factors contributing to the 1975 results.

In comparing results with 1974, it is important to note that last year's earnings were reduced by $15.3 million, or 55¢ per share, due to the sharp decline in the cheddar cheese market. A comparison of earnings prior to the cheese price adjustment would show a 1975 increase of $29.6 million, or 26.9%.

Market prices of two of our major ingredients, cheese and vegetable oil, fluctuated considerably in 1975, particularly in the third and fourth quarters. Had our domestic opera-



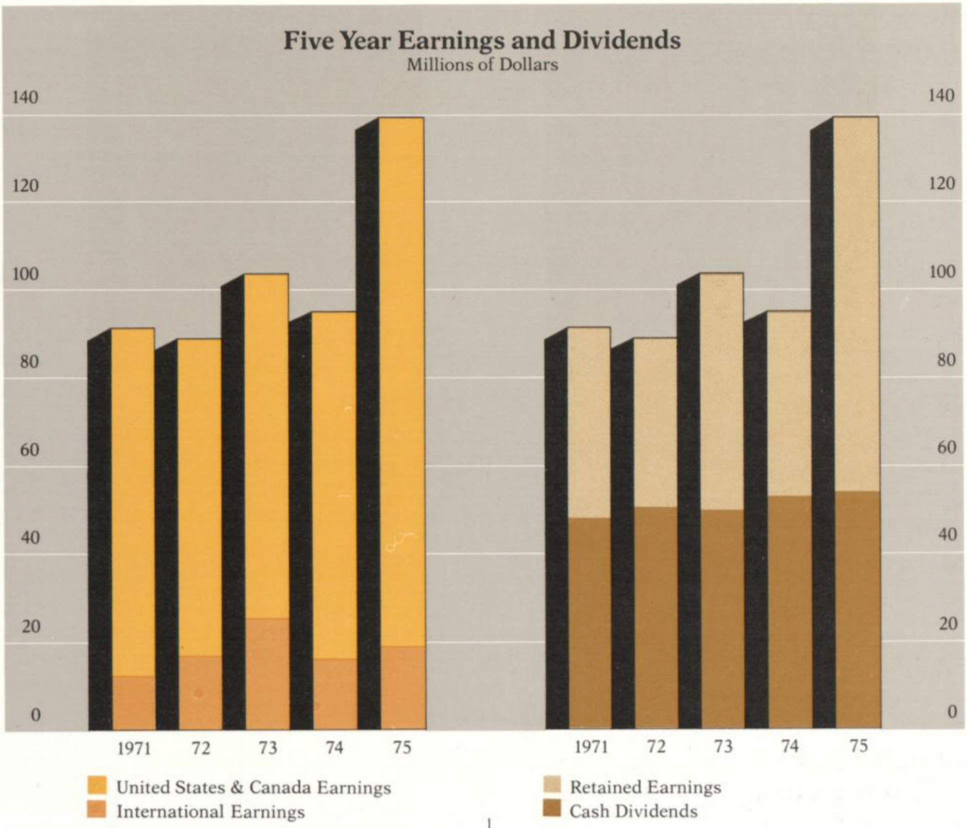
* As a Percent of Total Net Sales

tions been charged at current cost rather than average cost, earnings would have been reduced by approximately 45¢ per share for the year 1975.

Earnings included $5.3 million, or 19¢ per share, and $3 million, or 11¢ per share, for 1975 and 1974 resulting from U.S. investment tax credit. Translation of Canadian and international subsidiaries' financial statements at floating rates of exchange increased earnings by $2.3 million, or 8¢ per share, in 1975 compared to a net decrease of $3.1 million, or 11¢ per share, in 1974.

Pre-tax earnings were $268.2 million in 1975, an increase of 51.7% over the $176.8 million earned in 1974. All taxes on income, including state and local, amounted to $128.7 million, 56.5% over the $82.2 million for 1974.

Kraftco International Division earnings amounted to $18.8 million in 1975, an increase of $3.2 million, or 11¢ per share over 1974. The increase, however, can be attributed to currency translation gains rather than operations. Depressed results in the United Kingdom and start-up costs for the new plant near Namur, Belgium, more than offset operating gains in other countries.



A summary of quarterly sales, earnings and dividends for the past two years follows:

**1975** (In millions, except per share)

| | | | Per Share | |
|---|---|---|---|---|
| | Sales | Earnings | Earnings | Dividends |
| 1st Qtr. | $1,224 | $ 24 | $ .87 | $ .48 |
| 2nd Qtr. | 1,201 | 29 | 1.04 | .48 |
| 3rd Qtr. | 1,204 | 43 | 1.53 | .48 |
| 4th Qtr. | 1,228 | 44 | 1.57 | .48 |
| Total | $4,857 | $140 | $5.01 | $1.92 |
| **1974** | | | | |
| 1st Qtr. | $1,073 | $ 32 | $1.13 | $ .442 |
| 2nd Qtr. | 1,073 | 9 | .34 | .48 |
| 3rd Qtr. | 1,151 | 30 | 1.06 | .48 |
| 4th Qtr. | 1,174 | 24 | .88 | .48 |
| Total | $4,471 | $ 95 | $3.41 | $1.882 |

### Dividends

Dividends totaling $53.3 million were paid to stockholders in 1975 compared to $52.2 million in 1974, an increase of $1.1 million. Dividends per share were $1.92 in 1975, and $1.882 in 1974.

### Stock Price Range

The following table shows the high and low prices of Kraftco's stock on the New York Stock Exchange (Trading Symbol: KRA) by quarter for 1975 and 1974:

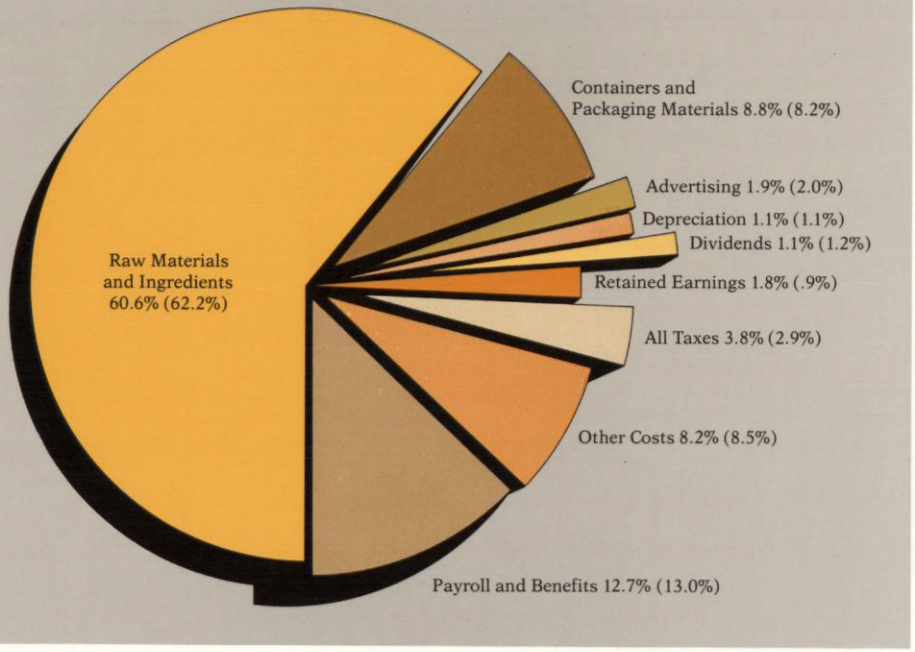
| | 1975 | 1974 |
|---|---|---|
| 1st Qtr. | $41¾–$34 | $46 –$37½ |
| 2nd Qtr. | $41¾–$37⅛ | $47⅞–$35 |
| 3rd Qtr. | $41⅜–$36⅛ | $41 –$26⅞ |
| 4th Qtr. | $45⅜–$36⅛ | $36½–$27¼ |

### Product and Operating Costs

The cost of Kraftco products, including raw materials, packaging and processing expenses, was 80.7% of sales in 1975 compared to 81.6% in 1974 and 78.5% in 1973. Although the wholesale cheddar cheese price rose, prices for certain other raw materials, principally sugar and vegetable oils, declined. Kraftco selling prices were reduced on a number of products, including mayonnaise, *Miracle Whip* salad dressing, pourable dressings, oil and shortening, *Parkay* margarine, jellies and preserves, and confections.

Delivery, sales and administrative expenses were 13.4%, 13.7% and 15.8% of sales in 1975, 1974 and 1973, respectively. These expenses grew as sales increased; however, the percentage relationship to sales reflects improvement. Advertising costs were $93.3 million (1.9% of sales) in 1975, compared with $89.4 million (2.0% of sales) in 1974, and $88.0 million (2.4% of sales) in 1973.

**How the 1975 (1974) Sales Dollars Were Divided**



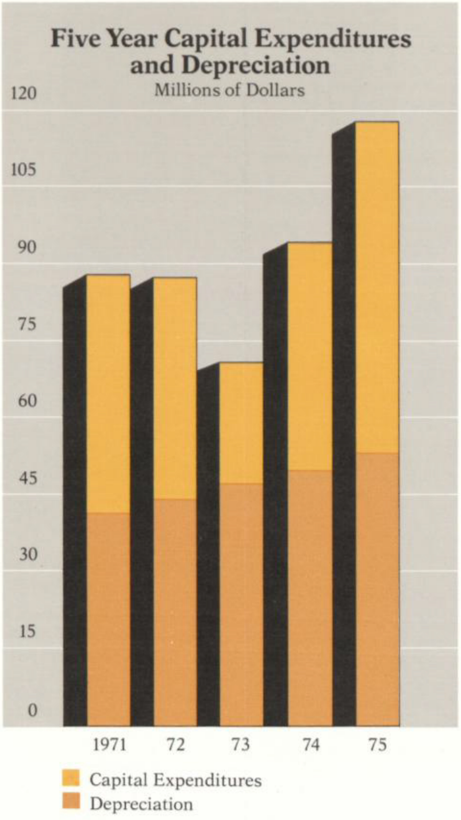
### Interest

Interest charges declined $7.0 million in 1975 to $32.3 million from $39.3 million in 1974. The decline was due to decreased borrowing requirements during 1975 as well as somewhat lower interest rates. Net borrowings in 1975 were reduced $191 million. Outstanding net borrowings were $271 million at year end compared to $462 million at the end of 1974. Reduction of inventories contributed primarily to the decreased working capital requirement.

### Translation of Foreign Currencies

Fluctuations of international currency exchange rates during 1975 resulted in a net translation gain of $2.3 million, as compared with a $3.1 million decrease in 1974. The net increase in 1975 was mainly due to a stronger U.S. dollar in relation to certain European currencies. See also comments on Translation of Foreign Currencies in the Notes to the Consolidated Financial Statements.

| **Gains (Losses)**<br>(In thousands) | Worldwide Total | U.S. and Canada | International other than Canada |
|---|---|---|---|
| **Before Taxes:** | | | |
| Translation of Income Statements | $(1,036) | $(1,076) | $ 40 |
| Translation of Balance Sheets ... | 2,374 | (1,897) | 4,271 |
| Total .................... | $ 1,338 | $(2,973) | $4,311 |
| **Taxes:** | | | |
| Translation of Income Statements | $ (448) | $ (459) | $ 11 |
| Translation of Balance Sheets ... | (559) | (559) | — |
| Total .................... | $(1,007) | $(1,018) | $ 11 |
| **After Taxes:** | | | |
| Translation of Income Statements | $ (588) | $ (617) | $ 29 |
| Translation of Balance Sheets ... | 2,933 | (1,338) | 4,271 |
| Total .................... | $ 2,345 | $(1,955) | $4,300 |



### Capital Expenditures

Capital expenditures amounted to $117.4 million in 1975. Expenditures in the United States and Canada, primarily for facilities to manufacture processed foods and dairy and nonfood products, accounted for $78.7 million of the total. In the International Division, most of the $38.7 million expended was for the Namur, Belgium, plant, where partial operation began during the year. Approximately $97.0 million of capital expenditures are anticipated in 1976. Depreciation charges amounted to $52.4 million in 1975 and are estimated to be $58.0 million in 1976.

### Legal Matters

Several governmental agencies have requested information from the company in connection with investigations being conducted by them. One such investigation, which the Federal Trade Commission has been conducting over a period of several years, relates principally to the longstanding arrangement under which Kraft Foods Division has been selling refrigerated dough bakery products manufactured by The Pillsbury Company to the retail trade.

See also the comments on Contingent Liabilities in the Notes to Consolidated Financial Statements.

# Consolidated Balance Sheet

(Dollars in thousands, except par value)

| **Assets** | **Dec. 27, 1975** | Dec. 28, 1974 |
|---|---|---|
| Cash and temporary investments (see note) | **$ 18,137** | $ 36,240 |
| Notes and accounts receivable, less allowance for losses of $7,988 in 1975 and $7,653 in 1974 | **304,690** | 300,666 |
| Inventories (see note) | **706,624** | 793,045 |
| **Total current assets** | **1,029,451** | 1,129,951 |
| **Property, plant and equipment,** at cost, less depreciation (see note) | **583,929** | 524,393 |
| **Miscellaneous investments and receivables** | **12,215** | 8,219 |
| **Prepaid and deferred items** | **11,444** | 13,509 |
| **Intangibles** (see note) | **34,133** | 34,366 |
| | **$1,671,172** | $1,710,438 |

| **Liabilities and Stockholders' Equity** | | |
|---|---|---|
| Accounts payable and accrued liabilities | **$ 339,661** | $ 313,091 |
| Short-term borrowings (see note) | **57,114** | 232,194 |
| Federal and foreign taxes on income (see note) | **72,412** | 31,280 |
| Current portion of long-term debt, less amounts provided for payment ($15,050 in 1975 and $2,450 in 1974) | **1,025** | 5,878 |
| **Total current liabilities** | **470,212** | 582,443 |
| **Long-term debt** (see note) | **215,533** | 237,473 |
| **Deferred taxes on income** (see note) | **32,299** | 26,575 |
| **Minority interest in subsidiary** | **2,831** | 2,430 |
| **Miscellaneous** | **11,821** | 11,506 |
| **Stockholders' equity** (see note): | | |
| Preferred stock, $1.00 par value—authorized 10,000,000 shares, issued—none | **—** | — |
| Common stock, $2.50 par value—authorized 60,000,000 shares | **73,628** | 73,628 |
| Capital surplus | **49,324** | 49,910 |
| Retained earnings | **885,951** | 799,705 |
| | **1,008,903** | 923,243 |
| Less—Treasury stock, at cost | **70,427** | 73,232 |
| **Stockholders' equity** | **938,476** | 850,011 |
| | **$1,671,172** | $1,710,438 |

Contingent liabilities (see note)

(See Notes to Consolidated Financial Statements, pages 23-25.)

## Consolidated Statements of Income and Retained Earnings

(In thousands, except per share)

### Consolidated Statement of Income

| | 52 Weeks Ended | |
|---|---|---|
| | **Dec. 27, 1975** | Dec. 28, 1974 |
| **Net sales** | **$4,857,378** | $4,471,427 |
| **Costs and expenses:** | | |
| Cost of products | **$3,920,605** | $3,647,582 |
| Delivery, sales and administrative expense | **649,994** | 613,616 |
| Interest expense, net | **27,724** | 36,021 |
| Other (income) and charges, net | **(9,174)** | (2,641) |
| **Total** | **$4,589,149** | $4,294,578 |
| **Income before taxes** | **$ 268,229** | $ 176,849 |
| Provision for taxes on income (see note) | **128,678** | 82,222 |
| **Net income** | **$ 139,551** | $ 94,627 |
| Earnings per common and common equivalent share | **$ 5.01** | $ 3.41 |
| Earnings per common share assuming full conversion of the 7½% Convertible Bearer Bonds due 1985 | **$ 4.95** | $ 3.38 |
| Average number of common and common equivalent shares | **27,854** | 27,741 |

### Consolidated Statement of Retained Earnings

| | 52 Weeks Ended | |
|---|---|---|
| | **Dec. 27, 1975** | Dec. 28, 1974 |
| **Balance at beginning of year** | **$ 799,705** | $ 757,239 |
| **Net income** | **139,551** | 94,627 |
| **Dividends on common stock** ($1.92 per share in 1975 and $1.882 in 1974) | **(53,305)** | (52,161) |
| **Balance at end of year** | **$ 885,951** | $ 799,705 |

(See Notes to Consolidated Financial Statements, pages 23-25.)

## Consolidated Statement of Changes in Financial Position

(In thousands)

Kraftco Corporation . . . and Subsidiaries

| | 52 Weeks Ended | |
|---|---|---|
| | Dec. 27, 1975 | Dec. 28, 1974 |
| **Working capital provided by:** | | |
| Operations— | | |
| Net income | $139,551 | $ 94,627 |
| Items which do not use working capital— | | |
| Depreciation | 52,376 | 49,150 |
| Deferred taxes on income | 5,724 | 6,858 |
| | $197,651 | $150,635 |
| Book value of properties sold | 7,441 | 8,679 |
| Proceeds from 8⅜% sinking fund debentures | — | 100,000 |
| Sales of common stock under options | 2,242 | 297 |
| Other, net | (5,514) | 6,820 |
| | $201,820 | $266,431 |
| **Working capital used for:** | | |
| Dividends paid on common stock | $ 53,305 | $ 52,161 |
| Property, plant and equipment additions | 117,362 | 94,164 |
| Decrease in long-term debt | 19,422 | 10,853 |
| Purchase of a business, net of working capital acquired | — | 4,463 |
| | $190,089 | $161,641 |
| Increase in working capital | $ 11,731 | $104,790 |
| **Increases (decreases) in working capital:** | | |
| Cash and temporary investments | $(18,103) | $ 2,253 |
| Notes and accounts receivable | 4,024 | 39,688 |
| Inventories | (86,421) | 234,434 |
| Accounts payable and accrued liabilities | (26,570) | (38,492) |
| Short-term borrowings | 175,080 | (131,227) |
| Federal and foreign taxes on income | (41,132) | 2,118 |
| Current portion of long-term debt | 4,853 | (3,984) |
| Increase in working capital | $ 11,731 | $104,790 |

(See Notes to Consolidated Financial Statements, pages 23-25.)

# Notes to Consolidated Financial Statements
December 27, 1975

## Summary of Significant Accounting Policies

**PRINCIPLES OF CONSOLIDATION**—The consolidated financial statements include the accounts of all subsidiaries. The voting stock of all consolidated subsidiaries is wholly owned, except for a minority interest in a Canadian subsidiary. The investment in 50% owned companies is recorded on the equity method. All significant intercompany items have been eliminated.

**TRANSLATION OF FOREIGN CURRENCIES**—In the consolidated balance sheet, assets and liabilities of international and Canadian subsidiaries are translated at the exchange rates prevailing on the balance sheet dates, except for fixed assets and intangibles, which are generally translated at the rates of exchange prevailing at the time such assets were acquired. Income and expense accounts are translated at the average exchange rates in effect during the years, except for depreciation, which is translated at the exchange rates which were in effect when the respective assets were acquired. Exchange adjustments originating during the years are reflected in income. Exchange adjustments in 1975 increased net income by $2,345,000 compared to a decrease of $3,144,000 in 1974.

**INVENTORY VALUATION**—Inventories are stated at the lower of average cost or market and include costs of raw materials, labor and overhead.

**PROPERTY, PLANT AND EQUIPMENT, AT COST:**

| | Dec. 27, 1975 | Dec. 28, 1974 |
|---|---|---|
| Land | **$ 27,707,890** | $ 26,284,662 |
| Buildings | **362,946,512** | 340,650,246 |
| Machinery and equipment | **671,974,006** | 610,666,425 |
| | **$1,062,628,408** | $977,601,333 |
| Less—Accumulated depreciation | **478,699,139** | 453,208,131 |
| | **$ 583,929,269** | $524,393,202 |

**DEPRECIATION**—Depreciation charges are generally computed on a straight-line basis over estimated useful lives of buildings and on a composite basis over estimated group lives of machinery and equipment.

**INTANGIBLES**—The excess of cost over net assets of businesses acquired prior to November 1, 1970 ($25,418,552 at December 27, 1975) are not currently being amortized since the company believes there has been no reduction in the value of these businesses. The excess of cost over net assets of businesses acquired subsequent to November 1, 1970 ($8,713,982 at December 27, 1975, net of amortization) are being amortized over 40 years in accordance with current accounting principles. Amortization was $233,833 in 1975 and $232,797 in 1974.

**RESEARCH AND DEVELOPMENT COSTS**—Research and development costs are charged to expense as incurred. These costs approximated $10,850,000 for 1975 and $9,875,000 for 1974.

**ADVERTISING**—Advertising costs are charged to expense as incurred. These costs were $93,262,000 in 1975 and $89,383,000 in 1974.

**REPAIRS AND MAINTENANCE**—Expenditures for maintenance, repairs, renewals and improvements, which do not materially prolong the normal useful life of the asset, or are of a minor nature, are charged to expense; and expenditures for renewals and improvements of a relatively major nature that substantially prolong the normal useful life of the asset are charged to accumulated depreciation. The amounts charged to expense were $64,079,000 in 1975 and $60,378,000 in 1974.

**UNDISTRIBUTED EARNINGS OF INTERNATIONAL SUBSIDIARIES**—Federal income taxes are provided on the portion of each international subsidiary's earnings which is not deemed to be permanently invested in the subsidiary. At December 27, 1975, approximately $117,605,000 of such undistributed earnings were considered to be permanently invested. In the event such earnings were distributed, the company would have available tax credits which would substantially offset any Federal income taxes due.

**TAXES**—Tax expense is made up of the following components:

| | 1975 | 1974 |
|---|---|---|
| Income taxes: | | |
| Current— | | |
| Federal | **$ 87,682,000** | $ 49,195,000 |
| Foreign | **24,554,000** | 18,614,000 |
| State and local (U.S.) | **10,718,000** | 7,555,000 |
| Deferred | **5,724,000** | 6,858,000 |
| | **$128,678,000** | $ 82,222,000 |
| Other state and local taxes (U.S.) | **12,706,000** | 11,331,000 |
| Payroll taxes | **22,789,000** | 22,136,000 |
| Other taxes | **18,383,000** | 15,161,000 |
| | **$182,556,000** | $130,850,000 |

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The amounts applicable to deferred tax expense in the above table result primarily from the excess of tax over book depreciation in both years.

There are no significant items either individually or in the aggregate accounting for the difference between the basic U.S. Federal income tax rate of 48% and the effective rate for each period.

Investment tax credits are taken directly into income as a reduction of the provision for Federal income taxes. Investment tax credits were $5,300,000 for 1975 and $3,000,000 for 1974.

It is not expected that there will be substantial cash outlays for tax payments in excess of tax expense for the next three years.

### Employees' Stock Options

Under the 1970 and the 1974 Stock Option Plans, 453,375 and 497,745 shares of the company's common stock at December 27, 1975, and December 28, 1974, respectively, were available for future grants to officers and other key employees. During 1975, options were granted to purchase 51,900 shares at $38.65 per share. Options to purchase 66,949 shares were exercised at prices ranging from $28.25 to $33.50 per share, and options for 15,369 shares lapsed or were cancelled. At December 27, 1975, 1,222 employees (including officers) held options to purchase 405,271 shares at prices ranging from $28.25 to $45.90 per share. At that date, options for 42,903 shares were exercisable.

### Company Pension Plans

The company and its subsidiaries have several pension plans. It is the company's general policy to provide and fund current service costs and interest on unfunded prior service costs annually, and to amortize past service costs over periods of 20 to 40 years. Vested benefits under these plans as of December 27, 1975, were fully funded except the company's non-contributory plan where vested benefits exceeded the market value of such funds by approximately $10,000,000. Amendments to the domestic plans effective January 1, 1975, increased benefits for presently retired employees and changed the 100% vesting period from 15 years to 10 years. These amendments contributed to the increase in annual pension expense. The company also contributes to joint industry and union plans. Substantially all employees are covered under one or more of these plans. Total pension costs approximated $28,550,000 in 1975 and $22,875,000 in 1974.

### Borrowing Arrangements

The company had unused lines of credit amounting to $420,627,000 at December 27, 1975. Bank balances of approximately $16,000,000 were maintained at banks to offset routine banking service charges and to support lines of credit. Commercial paper is sold in the open market through a money market dealer. It is the company's policy to maintain bank lines of credit at least equal to its outstanding commercial paper.

Short-term borrowings at December 27, 1975, and December 28, 1974, were as follows:

| **1975** | **Amount** | **Weighted Avg. Interest Rate** |
|---|---|---|
| Commercial paper–U.S. | **$ —** | **— %** |
| Bank loans–U.S. | **—** | **—** |
| Bank loans–Int'l | **57,114,000** | **8.1** |
| Parallel loan financing | **—** | **—** |
| | **$ 57,114,000** | |
| Average short-term debt during the year | **$192,999,000** | **8.1%** |
| Maximum period-end short-term debt | **$259,511,000** | |
| **1974** | | |
| Commercial paper–U.S. | $ 8,000,000 | 9.4% |
| Bank loans–U.S. | 131,389,000 | 8.9 |
| Bank loans–Int'l | 92,805,000 | 12.0 |
| | $232,194,000 | |
| Average short-term debt during the year | $251,797,000 | 10.8% |
| Maximum period-end short-term debt | $297,308,000 | |

All of the issues of long-term debentures, other than the 7½% DM Convertible Bonds, have sinking fund or prepayment requirements. The amounts shown below as outstanding at December 27, 1975, exclude maturities, amounts provided for payment and sinking fund requirements included in current liabilities, and $6,174,000 of debentures held in treasury in excess of current sinking fund requirements.

| | **Dec. 27, 1975** | Dec. 28, 1974 |
|---|---|---|
| 3⅛% Debentures due 1976 | **$ —** | $ 13,500,000 |
| 4⅜% Debentures due 1992 | **22,600,000** | 24,419,000 |
| 6⅞% Debentures due 1996 | **46,926,000** | 50,000,000 |
| 8⅜% Debentures due 2004 | **100,000,000** | 100,000,000 |
| 7½% DM Convertible Bonds due 1985 (Convertible into 649,350 shares of common stock of Kraftco Corporation) | **38,200,000** | 41,500,000 |
| 2% Mortgage–Pennsylvania Industrial Development Authority due 1975/93 | **4,262,756** | 4,478,686 |
| Mortgages payable of subsidiaries | **3,543,849** | 3,575,763 |
| Parallel loan financing | **—** | none |
| | **$215,532,605** | $237,473,449 |

Parallel loans are borrowings in foreign currencies from other organizations in return for loans or restricted time deposits of equivalent amounts of U.S. dollars to these organizations by the company. At December 27, 1975, these parallel arrangements consisted of a long-term amount of $25,000,000 maturing in 1990 and short-term amounts of $12,092,000. In the event of default by either party under these arrangements, defaulted principal and accrued interest may be offset against the related repayment obligation. The interest rates on the loans payable exceed the interest rates on the dollar loans receivable or deposits by 2½% for the $25,000,000 loan and by .625% to 2.125% for the $12,092,000 loans.

The net aggregate amount of annual sinking fund and prepayment requirements for, and maturities of, long-term debt after deducting amounts provided for payment, total $1,025,000 for 1976, $1,019,000 for 1977, $2,825,000 for 1978, $4,833,000 for 1979 and $4,610,000 for 1980.

### Contingent Liabilities

There are no pending legal proceedings against the company other than ordinary routine litigation (including several treble damage suits based on alleged violations of the antitrust laws) which is incidental to the company's business and, based on the opinion of the company's General Counsel, it is believed that the outcome of such litigation will not materially affect the company's consolidated financial position or operations. See also the comments in Legal Matters, page 19.

### Profit Incentive Plans

Under year-to-year profit incentive compensation plans of the company and certain of its divisions, key employees, including officers of the company, earned approximately $5,110,000 for 1975 and $6,974,000 for 1974. These plans, covering 588 and 2,697 employees for 1975 and 1974, respectively, did not include any director of the company who was not an officer.

### Capital Transactions

| | Number of Shares | | Amount | | |
|---|---|---|---|---|---|
| | Common Stock | Treasury Stock | Common Stock | Treasury Stock | Capital Surplus |
| December 29, 1973 | 29,451,288 | 1,731,645 | $73,628,220 | $73,162,231 | $49,958,365 |
| Treasury stock acquired | – | 10,500 | – | 423,889 | – |
| Used for– | | | | | |
| Management Incentive Compensation Plan | – | (197) | – | (8,321) | – |
| Stock options exercised | 100 | (8,175) | 250 | (345,301) | (48,688) |
| December 28, 1974 | 29,451,388 | 1,733,773 | $73,628,470 | $73,232,498 | $49,909,677 |
| Treasury stock acquired | – | 627 | – | 25,651 | – |
| Used for– | | | | | |
| Management Incentive Compensation Plan | – | (72) | – | (3,041) | – |
| Stock options exercised | – | (66,949) | – | (2,827,845) | (586,337) |
| December 27, 1975 | 29,451,388 | 1,667,379 | $73,628,470 | $70,427,263 | $49,323,340 |

## Auditors' Report

To the Board of Directors and Stockholders
of Kraftco Corporation:

We have examined the consolidated balance sheet of Kraftco Corporation (a Delaware corporation) and subsidiaries as of December 27, 1975, and December 28, 1974, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. We also have examined the condensed statements of financial position and income of international subsidiaries as of the above dates and periods. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Kraftco Corporation and subsidiaries as of December 27, 1975, and December 28, 1974, and the results of their operations and changes in their financial position for the years then ended, and the accompanying condensed statements of international subsidiaries summarize fairly the financial position and results of operations of such subsidiaries for the above dates and periods, all in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

69 West Washington Street
Chicago, Illinois 60602
February 19, 1976

## International Subsidiaries (other than Canadian)
(In thousands)

| Condensed Statement of Income | 52 Weeks Ended Dec. 27, 1975 | 52 Weeks Ended Dec. 28, 1974 |
|---|---|---|
| **Net sales** | **$763,568** | $682,463 |
| **Costs and expenses:** | | |
| Cost of products | **$617,130** | $543,451 |
| Delivery, sales and administrative expense | **111,814** | 101,827 |
| Interest expense, net | **11,629** | 11,278 |
| Other (income) and charges, net | **(2,326)** | (4,549) |
| (Gain) loss on translation of currencies (balance sheet items) (Note A) | **(4,271)** | 3,700 |
| **Total** | **$733,976** | $655,707 |
| **Income before taxes (Note A)** | **$ 29,592** | $ 26,756 |
| Provision for taxes on income (Note B) | **10,823** | 11,163 |
| **Net income (Note A)** | **$ 18,769** | $ 15,593 |

| Condensed Statement of Financial Position | Dec. 27, 1975 | Dec. 28, 1974 |
|---|---|---|
| Cash and temporary investments | **$ 4,154** | $ 2,479 |
| Notes and accounts receivable | **63,167** | 70,925 |
| Inventories | **149,891** | 150,114 |
| **Total current assets** | **$217,212** | $223,518 |
| **Current liabilities** | **152,141** | 180,803 |
| **Working capital** | **$ 65,071** | $ 42,715 |
| Property, plant and equipment, less accumulated depreciation | **125,375** | 100,045 |
| Other assets | **4,186** | 3,567 |
| | **$194,632** | $146,327 |
| Less—other liabilities | **13,116** | 10,505 |
| **Net tangible assets** | **$181,516** | $135,822 |

Notes:

A. For additional details on translation of currencies, see pages 19 and 23.

B. The provision for income taxes included in the Condensed Statement of Income for International Subsidiaries (other than Canadian) is based upon foreign income tax rates applicable to such income. Any additional taxes expected to be payable in the United States on such income are included in the consolidated provision for income taxes.

The above accounts are included in the Consolidated Financial Statements.

# Five Year Summary

Kraftco Corporation...and Subsidiaries

(Dollars in millions, except per share or as indicated)

See Analysis of Operations on pages 16-19.

| | 1975 | 1974 | 1973 | 1972 | 1971 |
|---|---|---|---|---|---|
| **Summary of Operations:** | | | | | |
| Net sales | **$4,857** | $4,471 | $3,602 | $3,197 | $2,960 |
| Costs and expenses | **4,589** | 4,294 | 3,404 | 3,001 | 2,773 |
| Income before taxes and extraordinary charge | **268** | 177 | 198 | 196 | 187 |
| Provision for taxes on income | **128** | 82 | 95 | 96 | 96 |
| Income before extraordinary charge | **140** | 95 | 103 | 100 | 91 |
| Extraordinary charge (net of taxes) | **—** | — | — | 12* | — |
| Net income | **$ 140** | $ 95 | $ 103 | $ 88 | $ 91 |
| Dividends | **$ 53** | $ 52 | $ 49 | $ 50 | $ 48 |
| Per share of common stock: | | | | | |
| Net income | **$ 5.01** | $ 3.41 | $ 3.70 | $ 3.13** | $ 3.25 |
| Net income—fully diluted | **$ 4.95** | $ 3.38 | $ 3.66 | $ 3.10 | $ 3.21 |
| Dividends | **$ 1.92** | $1.882 | $1.768 | $1.768 | $ 1.70 |
| Average number of common and common equivalent shares (thousands) | **27,854** | 27,741 | 27,945 | 28,190 | 28,094 |
| **Financial Position:** | | | | | |
| Cash and temporary investments | **$ 18** | $ 36 | $ 34 | $ 68 | $ 85 |
| Notes and accounts receivable (net) | **305** | 301 | 261 | 208 | 192 |
| Inventories | **706** | 793 | 559 | 464 | 411 |
| Total current assets | **$1,029** | $1,130 | $ 854 | $ 740 | $ 688 |
| Total current liabilities | **470** | 582 | 411 | 314 | 267 |
| Working capital | **$ 559** | $ 548 | $ 443 | $ 426 | $ 421 |
| Property, plant and equipment (net) | **584** | 524 | 480 | 459 | 430 |
| Total assets | **1,671** | 1,710 | 1,391 | 1,245 | 1,164 |
| Long-term debt | **216** | 237 | 143 | 135 | 140 |
| Stockholders' equity | **938** | 850 | 808 | 769 | 732 |
| Per share of common stock | **$33.78** | $30.67 | $29.14 | $27.41 | $26.10 |
| **Statistical Information:** | | | | | |
| Capital expenditures | **$ 117** | $ 94 | $ 70 | $ 87 | $ 87 |
| Depreciation charged during the year | **52** | 49 | 47 | 44 | 41 |
| Total taxes—income, property, payroll and other | **183** | 131 | 138 | 133*** | 129 |
| Per share of common stock | **$ 6.57** | $ 4.72 | $ 4.96 | $ 4.72*** | $ 4.59 |
| Interest expense | **32** | 39 | 17 | 12 | 10 |
| Payroll | **523** | 498 | 453 | 431 | 393 |
| Average number of employees | **48,409** | 50,410 | 48,909 | 48,948 | 48,091 |
| Number of stockholders at year end | **65,209** | 66,320 | 67,556 | 69,999 | 71,461 |
| Number of shares of common stock outstanding at year end (thousands) | **27,784** | 27,718 | 27,720 | 28,046 | 28,064 |

*Extraordinary charge before tax benefit was $22 million.

**Income before extraordinary charge was $3.57 per share for 1972.

***Before tax benefits on extraordinary charge.

## Divisions and Operations

KRAFT

**Kraft Foods Division,** Chicago, is an acknowledged pioneer in the packaged foods industry. Kraft technology has contributed in particular to innovations in the development of processed cheese and salad dressing products. Notable among these are *Velveeta,* the first processed, packaged cheese spread with good keeping quality and uniformity of flavor and texture, and the highly successful *Miracle Whip* salad dressing. Well-known since 1903 for fine natural cheeses, Kraft Foods has steadily diversified its product lines to include such foods as margarine, confections, dry dinner mixes, barbecue sauces, jellies and preserves, cooking oil, citrus juices and fruit salads.

In addition to these products, which are sold in retail outlets throughout the United States, Kraft does an extensive business with foodservice customers, including restaurants, hospitals and schools, and with the military. Kraft also provides many industrial food products used as ingredients by other food manufacturers and a line of animal feed products.

Kraft Foods Limited, a Canadian subsidiary of Kraftco which reports to the Kraft Foods Division, manufactures and distributes processed food products and manufactured dairy products under substantially the same trademarks used in the United States. Kraft Foods Limited supervises the operations of Vancouver Fancy Meats Co. Ltd., a Kraftco Canadian subsidiary, which manufactures and distributes specialty meat products.

Sealtest®

**Sealtest Foods Division,** Philadelphia, is a consolidation of the company's local and regional milk and ice cream operations. Over the years, Sealtest has become a major processor of dairy foods, distributing an extensive product line including ice cream, ice milk, sherbet, fluid milk, cream, cottage cheese, yogurt, fruit juices and flavored drinks. Sealtest's distribution area extends from the Atlantic Coast to the Mississippi, from Canada to the Gulf of Mexico. Many products are marketed under the widely advertised *Sealtest* brand. All Natural ice cream and yogurt are sold under the long-established *Breyers* trademark. A highly successful line of lowfat milk, ice milk and dairy specialty products is marketed under the *Light n' Lively* trademark.

Kraftco's Canadian subsidiary, Dominion Dairies Limited, reports to the Sealtest Foods Division. Dominion produces and distributes fluid milk products, ice cream and frozen desserts and various manufactured dairy products in the provinces of Ontario and Quebec, principally under the trademark *Sealtest.*

## Breakstone

**Breakstone Sugar Creek Foods Division,** New York City, was formed in 1968 to improve, through consolidation, the efficiency of two respected, comparatively small, operations. Breakstone's premium cultured milk products, such as sour cream, cottage cheese, yogurt, cream cheese and others, are marketed under the *Breakstone, Temp-Tee, Swiss Parfait* and *Stay 'n Shape* brands. These products reach consumers throughout the Eastern Seaboard of the United States, Puerto Rico and in the Cleveland, Detroit and Indianapolis market areas.

Sugar Creek products include butter, powdered milk and ice cream mixes. Market areas are principally in the Midwest and Southeast.

## Kra-Pak

**Kra-Pak Division,** Glenview, Kraftco's industrial division, is made up of four operations which are principally engaged in the businesses of edible oil refining, specialty chemicals and packaging materials.

HumKo Products, Memphis, refines and manufactures a variety of vegetable oils, shortenings and coffee whiteners. HumKo Products' lines are marketed to the food manufacturing, retail grocery and food-service industries in the United States, Canada, the Middle East and West Indies.

Humko Sheffield Chemical, Memphis, produces fatty acids, dimer acids, amides, amines, glycerine, esters and other special chemicals that are used by various industries in the United States, Puerto Rico and a number of foreign markets.

Metro Containers, Lyndhurst, N.J., manufactures glass packaging for use in the food, beverage, drug, chemical and cosmetic industries in the United States.

Universal Packaging, Bow, N.H., manufactures paper containers and flexible packaging materials for the food industry in the United States, Canada and the Common Market countries. Universal Packaging also supervises Kraftco's printing operations. Kraftco's overseas operations engaged in edible oil refining, chemicals and packaging with facilities in Manchester, England, and Baudour, Belgium, report to the Kra-Pak Division.

## KRAFTCO INTERNATIONAL

**Kraftco International Division,** Glenview, is comprised of the company's subsidiaries engaged in food processing and distribution outside of the United States and Canada. Manufacturing operations are located in Australia, Belgium, Denmark, Italy, Mexico, New Zealand, Panama, Philippines, Republic of Ireland, Spain, Sweden, United Kingdom, Venezuela and West Germany.

The MK Cheese Co., Ltd., jointly owned by Kraftco and Morinaga Milk Industry Co., Ltd., produces cheese products in Japan.

Processed food products and manufactured dairy products are marketed, principally under the *Kraft* trademark, in more than 135 countries.

### Aluminum Specialty Company

Aluminum Specialty Company, Manitowoc, Wis., acquired by Kraftco in 1974, is operated as a subsidiary. Production facilities are maintained at five Wisconsin locations: Burlington, Chilton, Manitowoc, Menomonee Falls and Seymour. Product lines include aluminum cookware and bakeware, small electric appliances, roller skates, metal and plastic toys and metal and plastic components for use by other manufacturers. *Chilton* and *Globe* are the principal trademarks under which products are distributed through national variety and chain stores, catalog houses, supermarkets and other United States retailers.

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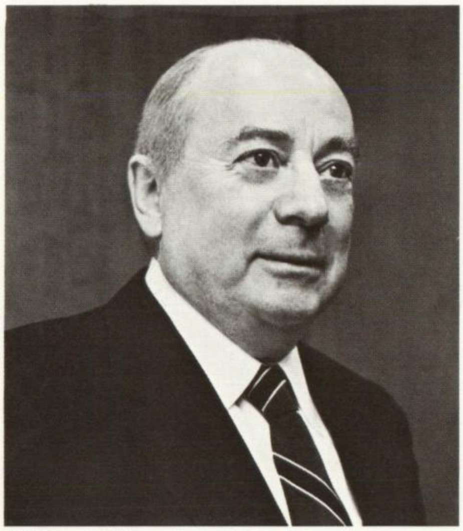
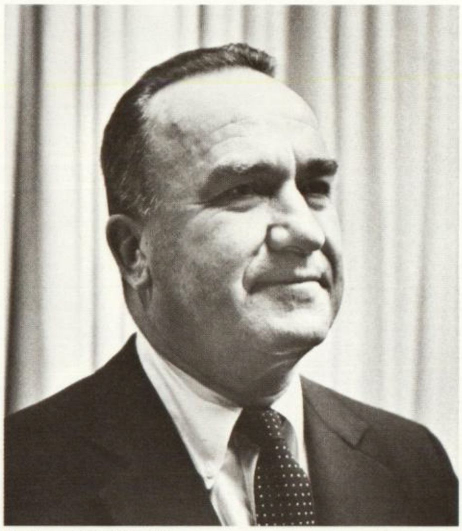

William O. Beers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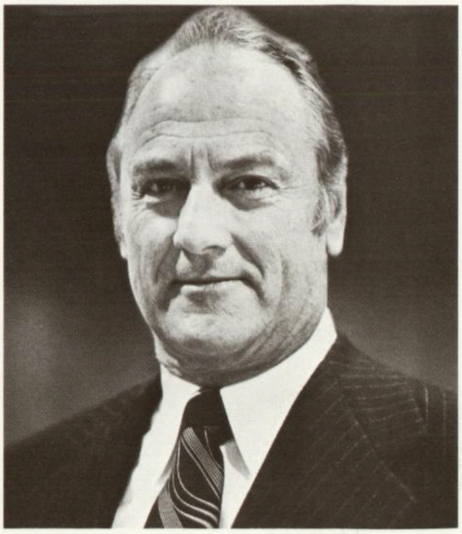
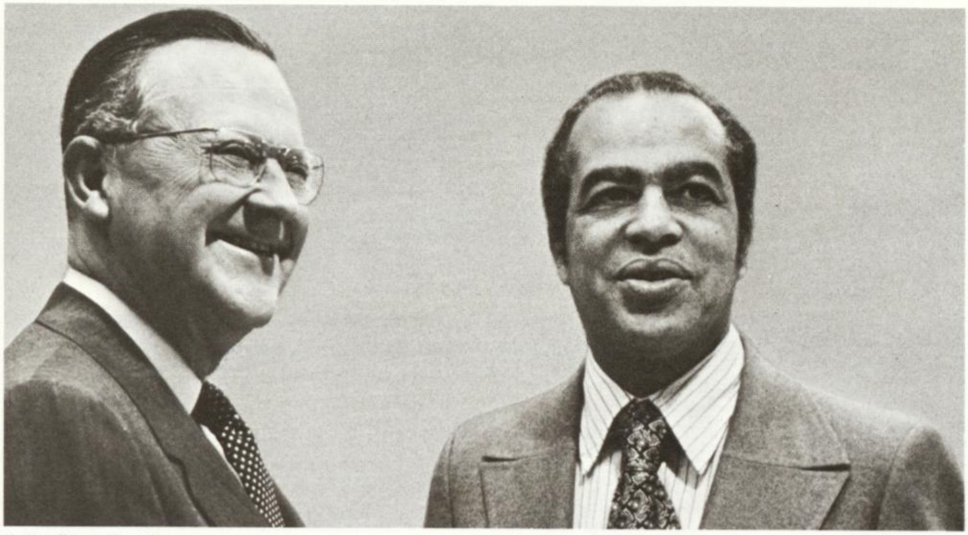

O. Everett Swain



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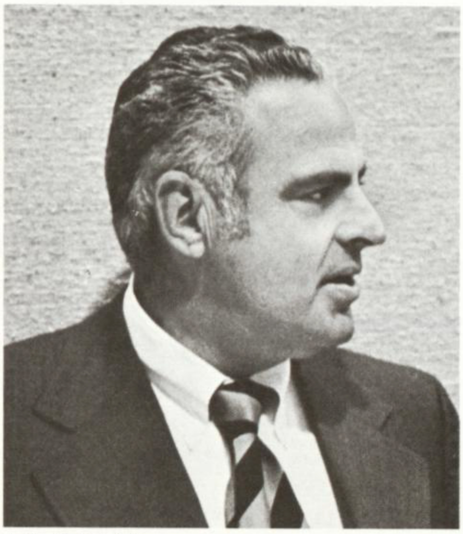

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Printed in U.S.A.

**Counsel**
Sullivan & Cromwell

**Transfer Agents**
Manufacturers Hanover Trust Company
4 New York Plaza, New York, New York 10015

National Boulevard Bank of Chicago
400 North Michigan Avenue, Chicago, Illinois 60611

Bank of America N.T. & S.A.
55 Hawthorne Street, San Francisco, California 94120

The Royal Trust Company
630 Dorchester Boulevard West, Montreal 110, P.Q., Canada
Royal Trust Tower, Toronto-Dominion Centre,
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**Stock Exchanges**
New York (principal market), Midwest, Pacific, Montreal, Toronto, *Adelaide, Amsterdam, *Brisbane, *Hobart, *Melbourne, *Perth, *Sydney, London, Brussels, Antwerp, Frankfurt/Main, Basel, Bern, Geneva, Lausanne, Zurich. U.S. Trading Symbol: KRA.

**For shares represented by Australian certificates only.*

**Auditors**
Arthur Andersen & Co.

**Corporate Headquarters**
Kraftco Corporation
Kraftco Court
Glenview, Illinois 60025
(312) 998-2000

Note: In this report the use of italics indicates some of the many trademarks of Kraftco Corporation. The word Kraftco and the symbol Ⓚ are also trademarks of Kraftco Corporation.